ERC
Enterprise Research Centre

The State of Small Business Britain 2025

Navigating uncertainty

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UKRI Economic and Social Research Council

The Enterprise Research Centre (ERC) is an independent research centre based at Warwick Business School focusing on growth, innovation and productivity in small and medium-sized enterprises.

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Contents

Foreword

The State of Small Business Britain report is the Enterprise Research Centre's (ERC) annual review of trends and issues affecting small businesses in the UK. The report draws together the Centre's latest research to give a picture of the UK's small business population and the challenges and opportunities that lie ahead of them.

The ERC has established itself as the UK's authority on small businesses, delivering high quality research and analysis that enables informed discussion on the growth and productivity of small enterprises. The team have always placed a strong focus on working in partnership with a range of stakeholders, to ensure that their research has an impact on practice, policy development and implementation. We do this in a range of ways – through seminars, workshops and 'teach-in' events, an annual policy-focused conference, and regular on-going dialogue with policy colleagues.

The ERC's research agenda really came to the fore in 2025. In July, the Government published its small business strategy - Backing your business: our plan for small and medium-sized businesses. The strategy sets out a long-term plan for support for SMEs which has a central focus on improving their growth and productivity. The Department for Business and Trade turned to ERC as the national authority on these issues help develop and test the strategy, ensuring it was based on the most relevant robust research. Encouragingly, the strategy draws heavily on the ERC's significant back catalogue of research. It also represents a significant package of new investments, initiatives and reforms.

Nevertheless, 2025 offered further evidence of persistently subdued business confidence. This was exacerbated by growing instability and short-termism in business support funding, trends that have characterised recent years. The conclusion of the UK Shared Prosperity Fund in March 2026 - which has played a vital role in underpinning regional and local business support across England - presents a significant risk to the sustainability of the UK's local enterprise infrastructure. Its replacement with funding streams focused primarily on mayoral strategic areas in the Midlands and the North risks leaving small businesses in other parts of the country with limited access to support. Urgent action will be required in 2026 to ensure that the Government's ambitious plans for small business growth are not undermined at the point of delivery.

This report pulls together the key research for all those seeking to understand how to better support the UK's small businesses to achieve their full potential. Please do get in touch with the ERC team if you would like to find out more about our work. You can find contact details on the ERC website at: **https://www.enterpriseresearch.ac.uk/**

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Executive Summary

2025 was another challenging year for the UK's small businesses and those working to support them. On one hand, there was much to be positive about. The evidence continues to show that the UK has a vibrant entrepreneurial culture, and that digital technology adoption is accelerating amongst businesses of all sizes. The Government also published a much-awaited small business strategy in the Summer, setting out a welcome plan for improved growth and productivity that acknowledged the diverse needs of the UK's small business population.

But at the same time, small businesses have been operating within a wider climate of marked economic and political uncertainty. This has had an impact on the confidence and behaviour of small business leaders, as well as the people that work for them. The evidence points to a continued decline in some important growth-related behaviours amongst small businesses, deepening pre-existing downward trends. Although technological change is bringing many opportunities for small businesses, it also brings a host of new challenges and threats.

As we look ahead to 2026, action is needed to raise confidence, increase innovation activity and address the pressures that are constraining small business investment. It is also vital that decisive action is taken to ensure the long-term stability of the small business support landscape, which continues to be under severe pressure.

HEADLINE FINDINGS

Business context

The findings from the most recent Global Entrepreneurship Monitor (GEM) Survey reveal an encouraging picture in terms of entrepreneurial aspiration in the UK. Over one-third of working-age individuals surveyed said that they intended to start a business within the next three years, were actively trying to start a business, or were already running their own business.

The rate of total early-stage entrepreneurial activity (known as the TEA rate) has increased since the early 2000s, and now looks to have stabilised at around 12 per cent. This is an indicator of the considerable entrepreneurial creativity and resilience found in the UK.

The GEM survey findings also point to some interesting changes occurring in the profile of the UK's entrepreneurial population. The marked increase in the level of early-stage entrepreneurial activity by women since the turn of the millennium has continued. In addition, since 2019 there has also been a significant shift in the age distribution of all early-stage entrepreneurs in the UK from early 40s to early 30s.

Data from the Business Insights and Conditions Survey (BICS) provides useful information on the key concerns that were affecting businesses in 2025. There have been some marked fluctuations here over the past few years, reflecting the shifting economic context. Key concerns reported by small businesses were: falling demand for goods and services, competition, taxation, and inflation.

Growth and productivity

Previous ERC research has demonstrated that only a small proportion of small businesses in the UK reach significant growth milestones, and most do not sustain growth over time, but instead experience shorter, unpredictable growth ‘episodes’.

The latest data from the Longitudinal Small Business Survey (LSBS) panel report confirms that sustained turnover growth in SMEs is uncommon. Just under 15 per cent of firms achieved sustained growth over all four years covered in the report (2021-2024).

The BICS data shows that economic uncertainty and competition were the most frequently reported constraints on turnover amongst SMEs, with cost-related factors also featuring prominently. Labour costs were a particularly dominant constraint for businesses with between 10 and 99 employees.

There were mixed findings in the LSBS panel report on the incidence of growth behaviours amongst SMEs, with some seeing an increase over the period, others a decrease, and others remaining steady. Innovation behaviour is a particular area for concern. The proportion of firms reporting either product or service innovation has decreased year on year since 2021. By contrast, there has been continued growth in the proportion of firms acquiring external finance.

Micro-businesses are more likely to report a need for external finance but are less likely to use it than larger SMEs. ERC Analysis published in 2025 shows that between 2015 to 2023, an average of 10 per cent of micro-businesses indicated they had a need for funding, yet fewer than one-third of these had accessed it. New ERC research on business investment decisions in firms showed that smaller firms and those with lower turnover made fewer investments, and that investment planning is often informal. It also found evidence that external shocks (Brexit and Covid-19) have adversely affected investment in firms.

An evidence review published in 2025 also showed that policy uncertainty presents heightened risks and permeates all aspects of decision-making in small firms, including investment as well as other areas such as employment and resource allocation.

The problem of late payment can influence business investment and growth. The ERC contributed to a study published this year that demonstrated that smaller firms are especially disadvantaged by late payment issues, with micro-businesses having the highest share of their turnover tied up in late payments.

The small business ecosystem

Data from the GEM survey indicates that the UK has several persistent weaknesses in its small business ecosystem. The overall quality of the UK entrepreneurial environment continues to decline slowly, and is now rated by experts as ‘less than sufficient.’

The latest data shows that just three ecosystem conditions scored at better than ‘sufficient’ in the UK. A range of conditions were considered to be insufficient, including support and relevance of government policy; R&D transfer; easiness to get financing; taxes and bureaucracy; cultural and social norms; post-school entrepreneurial education; internal market burdens/entry regulations; government entrepreneurship programmes; and sufficiency of financing for entrepreneurs. Entrepreneurial education at school age was rated as the weakest area.

The level of support for women's entrepreneurship in the UK was also evaluated as inadequate in the GEM survey, sitting below that of the US, France and Germany.

In 2025 we published new ERC analysis on micro-businesses, focusing on the behaviour and needs of this group. The available evidence indicates that micro-businesses have distinct support needs that are not being met by the existing ecosystem. However, there are key gaps in the evidence and a new research agenda is needed to strengthen the policy evidence base.

New research published in 2025 has highlighted once again the important role tailored business support can play in growth. A study of the Account Management approach used by the Coventry & Warwickshire Growth Hub demonstrated the value of this personalised approach in delivering positive impacts in small businesses, including increases in skills, confidence, sales, and employment.

An ERC paper published in 2025 re-examined the geography of high-growth firms (HGFs) in the UK, casting more light on the influence of entrepreneurial ecosystems at local level. The analysis suggests that some places hold longer-term structural advantages that support repeated waves of scaling firms.

Another ERC study published in 2025 found that strong levels of local social capital help the most economically vulnerable entrepreneurs and those with more modest growth ambitions. Community support mitigates risks for individuals who lack alternatives in the labour market and acts to bolster economic resilience during times of crisis.

Innovation

The most recent LSBS panel report (including data up to 2024), shows a decline in innovation activity amongst SMEs since the pandemic, with micro-businesses consistently lagging behind larger SMEs in R&D investment and innovation.

However, the 2025 Innovation State of the Nation Survey (ISNS) provides a more positive picture. This survey found an increase in businesses making product or service changes, with the innovation gap between smaller and larger firms narrowing.

The ISNS also showed an increase in ‘new-to-the-market’ or novel innovations for both product and service innovation in 2025. The number of firms reporting product innovations that were new-to-the-market increased notably between 2024 and 2025.

Firms surveyed in the ISNS also reported an increased use of external finance for their innovation activities in 2025. The use of grants, government loans, bank loans, and equity finance all rose, with the rise in the use of external funding sources being particularly notable amongst micro-businesses.

However, a larger share of innovating firms also reported facing obstacles in 2025 compared to 2024. Notably, there was a 10 per cent rise in reported barriers amongst micro-businesses, compared to an 8 per cent reduction in large firms. The most common barrier reported by innovating firms was a lack of finance. A new research project published in 2025 provides new evidence on the impacts of innovation grants. The study tracked a set of projects over time and found that they generated a diverse range of direct and indirect impacts, including promoting ongoing collaboration between partners or follow-up R&D projects for example, with some impacts taking years to manifest.

The ISNS 2025 findings showed a rising trend in firms seeking assistance with digital technologies. Notably, the proportion of small firms seeking support for digital technologies increased by around 14 per cent. Artificial intelligence (AI) had experienced notably high adoption rates compared to other technologies, with large firms and frontier firms amongst the highest adopters. Overall, 45 per cent of businesses said they had adopted AI, with the rate of adoption increasing with firm size. The majority had begun using AI within the past year. Analysis of the LSBS also shows that micro-businesses remain far less likely than larger SMEs adopt digital technology.

New analysis of the LSBS found differences in the performance impacts of specific technologies, indicating that the strategic and selective adoption of technology by SMEs is most likely to deliver greater productivity benefits. It also found that the bundling of technologies did not routinely lead to higher productivity, with some combinations actually reducing productivity returns, pointing to the complexity of integration.

Although it has many potential benefits, digital adoption also brings new threats. New ERC research found that 47 per cent of firms had experienced a cyber security breach or attack during the previous twelve months. There are key actions and practices that SMEs can implement that can help them make a recovery after an attack, such as including having a business continuity plan covering cyber security, and backing up data for example.

Workplace mental health

Our major programme of longitudinal research on workplace mental health concluded in 2025. The findings from our UK survey results (which involved six years of employer surveys) showed that workplace mental health and wellbeing challenges, including absenteeism and presenteeism, are widely experienced by employers, that they may be increasing.

In particular, presenteeism was experienced by a substantial proportion of the businesses we surveyed (37% in 2025). According to our longitudinal employer survey findings, employer-reported presenteeism is currently at the highest level since before the pandemic.

Mental health-related sickness absence was also reported by 25 per cent of businesses we surveyed in 2025. There was also a notable rise in the proportion of employers reporting that they had employees taking multiple occasions of sickness absence during the study period (2020-2025).

The study findings showed that mental health issues have business impacts. In 2025, just under half of those firms in our employer survey reported that they experienced mental health absence amongst their workforce said that it impacted negatively on their operations. A higher proportion of smaller businesses reported business impacts from mental health related absence.

Half of the businesses we surveyed said that they had adopted mental health initiatives in 2025. The study found that there was an increase in the proportion of firms adopting mental health and wellbeing initiatives during and immediately after the pandemic. However, in 2025 this increasing uptake stalled. The smallest firms are the least likely to have mental health initiatives in place.

Our data-matching analysis found evidence that the long-term adoption of specific mental health and wellbeing practices, namely mental health budgeting, wellbeing data monitoring, and provision of physical wellbeing support, is associated with productivity gains. However, the picture is complex as the analysis also found that short-term adoption of practices often coincides with a decline in productivity.

Further analysis of the UK employer survey findings has shown that the provision of training for line managers in mental health in particular was associated with improved performance, including lower long-term sickness absence, enhanced staff recruitment and retention and improved customer service.

The impact of workplace mental health initiatives is dependent on their effective implementation. Financial and resource constraints emerged as a recurrent implementation barrier, limiting the scope and depth of wellbeing programmes in some organisations. Key facilitators of success included strong leadership support, effective communication, robust feedback mechanisms, although these varied in execution depending on organisational size and culture.

Our Manifesto for Small Business Growth and Productivity

In 2024 we produced a manifesto for small business growth and productivity, based on a decade of evidence-based insights. This highlights several priority areas for focus and action, as summarised below. Some of these areas were addressed in the Government's small business plan published in Summer 2025, and there have been some positive developments this year. However, it is essential we see more progress in 2026.

- **We need to ensure the UK has more evidence-based enterprise policy**. Small business policies and initiatives need to be firmly based on the evidence about what small businesses need and what works. We need to make better use of the full range of data sources available, as well as drawing on the insights of small business leaders themselves.
- **We need to take action to improve the UK's small business ecosystem**. This means developing a small business support ecosystem that is focused on creating the conditions for sustainable growth and improving productivity amongst the UK's diverse population of small businesses. This needs to be based on an understanding of the complex patterns of start-up, survival and growth that exist rather than focused on rigid definitions of 'high growth' firms.
- **The UK needs a coherent, joined-up, stable government-funded business support system** that draws on existing expertise, recognises the valuable role played by professional business advisers and provides support tailored to advancing the potential of underserved groups including women and ethnic minority entrepreneurs.
- **Action needs to be taken on small business finance**. We need to ensure that the UK's small businesses are better informed about the range of finance options available to them, that finance is more inclusive and accessible, particularly to underserved groups, and that the enduring late payment problem is tackled.
- **We need to encourage and enable more innovation activity in small businesses** and address the disparities that exist in innovation activity between places through locally based and intelligence-informed strategies.
- **Small businesses need more support in adopting net zero practices**. The UK's small businesses urgently need access to quality, actionable information and advice to help them adopt net zero practices and measure their effectiveness.
- **We need more UK businesses to adopt digital technologies** that have the potential to improve their productivity through improving digital understanding and literacy amongst small businesses and providing training support.
- **We need to challenge the ambitions and management mindsets of the UK's small business leaders**, encouraging sustainable growth ambitions and enhancing management and leadership skills.
- **Urgent action is needed on workplace mental health and well-being**. We need to transform understanding amongst small business leaders of the importance of good mental health and well-being for productivity, and improve management training and behaviour in this area.
- **The export performance of the UK's small businesses needs attention.** We need to encourage more small firms to export, and support them to do so at different points in their export journeys, maximising the links between exporting and innovation.

1. The Small Business Landscape in 2025

In this section we present some headline evidence on the small business landscape in the UK in 2025. We draw on a mix of recent findings from some key secondary data sources.

1.1 Trends in business activity

1.1.1 Changes in the small business population

According to official data, the total number of private sector businesses in the UK at the start of 2025 was 5.7 million. The majority of these - 99.9 per cent - were classified as small and medium sized enterprises (SMEs), officially defined as businesses with 0-249 employees; 99.2 per cent were small firms (with 0 to 49 employees), and 95 per cent were micro businesses (with 0-9 employees).[1]

Total employment in UK SMEs was 16.9 million (just over 60% of the total). However, it should be noted that the majority of businesses in the UK do not actually have any paid employees aside from the owner(s). These non-employing firms accounted for 75 per cent of all private sector businesses in the UK in 2025. Small and micro businesses and self-employed people, therefore, play a crucial (and often, it has to be said, under-estimated) role in the UK economy. SMEs as a whole (including employing and non-employing businesses) also accounted for an estimated 51 per cent of turnover (£2.8 trillion).

Looking at trends in the SME business population in the past few years, we can see that Covid-19 pandemic has had a marked impact. After a prior decade of increase (which was driven mainly by the growth of non-employing businesses), the UK's overall business population has decreased since 2020. Between 2020 and 2025, the total business population decreased by 290,000 (4.9%). Looking more closely at the data, there are differences in the extent of the decrease between employing and non-employing businesses. Whilst the number of employing businesses actually increased by 0.4 per cent during the period, the population of non-employing businesses decreased by 6.5 per cent, illustrating the impact of the challenges of the past five years on self-employed people.

Looking at population change over 2024 to 2025 specifically, however, the data show trends may be shifting. Over the last year the overall private sector business population increased by 191,000. Whilst the numbers of employing businesses decreased by 9,000 (0.7%), non-employing business numbers increased by 201,000 (4.9%). The increase in non-employing businesses resulted from an increase of 174,000 (6.1%) unregistered businesses, and an increase in non-employing registered businesses of 27,000 (2.2%).

1 Business population estimates for the UK and regions 2025: statistical release - GOV.UK

1.1.2 Changes in early entrepreneurial activity

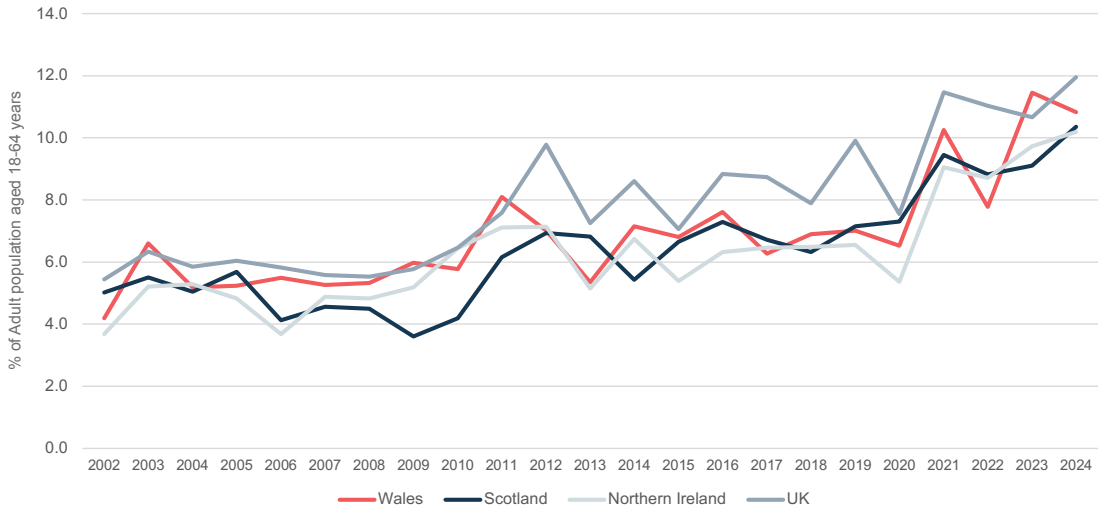
Turning to look at early-stage entrepreneurial activity, the most up-to-date, reliable information available in the UK can be found in the Global Entrepreneurship Monitor (GEM) survey. GEM data is available on an annual basis from 1999 when the project was first launched, and is the most authoritative source of data on entrepreneurial activity as well as attitudes and aspirations.[2]

The findings from the most recent GEM survey carried out in 2024 show - encouragingly -that the UK continues to have a strong entrepreneurial culture.[3] For the first time since GEM records began in 1999, over one-third (36%) of working-age individuals in 2024 either intended to start a business within the next three years, were actively trying to start a business, or were already running their own business. In addition, the data show that individuals immigrant and ethnic minority communities are consistently the most entrepreneurial groups in UK society since the start of the new millennium.

The rate of total early-stage entrepreneurial activity (known as the TEA rate), which is the sum of nascent entrepreneurship and new business ownership/management, has increased over time in the UK. This now looks to have stabilised at around 12 per cent, compared to the 6-7 per cent found during the first decade of the 2000s. The increase in the TEA rate over time can be seen as an indicator of the entrepreneurial creativity and resilience found in the UK. By contrast TEA rates in France and Germany were 2-3 percentage points lower than in the UK in 2024. However, the sharp fall in the US TEA rate in 2023 was been reversed in 2024, and at just over 19 per cent is the highest it has been.

Although entrepreneurial confidence was undoubtedly knocked by the pandemic, the latest GEM survey findings show that it also prompted many individuals began to re-evaluate their position in the labour market and take control of their future economic activity at a time of great uncertainty. Looking at variation by geography, as shown in Figure 1, there was a notable rise in early-stage entrepreneurial activity across all four home nations post-pandemic.

Figure 1: Total early-stage Entrepreneurial Activity (TEA) in the Home Nations 2002-24



Source: GEM Annual Population Survey (APS) 2002-24

2 GEM Global Entrepreneurship Monitor
3 Global Entrepreneurship Monitor UK National report 2024/25 - Enterprise Research Centre

1.2 Trends in SME performance

1.2.1 Growth-related behaviours

The UK Longitudinal Small Business Survey (LSBS) explores a range of topics relating to small business growth and performance and the factors that affect it, with a panel element that allows us to see how business attitudes, behaviours and performance change over time.

In 2025, a LSBS panel report was published that reported findings from a group of 1,484 firms that responded to the 2021, 2022, 2023, and 2024 surveys.[4] The report shows some interesting trends in growth and drivers of growth amongst a particular set of small and medium-sized businesses.

Overall, looking at patterns of growth, the panel data confirms that sustained growth in SMEs is uncommon. Only 14.6 per cent of firms achieved sustained growth over all four years covered in the panel report. The proportion of businesses reporting increased sales rose from 2021 (42.1%) to 2023 (59.6%), before falling back in 2024 (41.2%).

Annual expectations of employment growth were also unrealised for many businesses. Expected growth was realised in around half (50.1%) of the businesses that reported such expectations in 2023 (50.1%) and in 2024 (44.5%). Overall, the proportion of firms that increased employment over all four years of the survey fell from 32.9 per cent in 2021 to 21.7 per cent in 2024. Employment growth also varied widely between regions.

The LSBS also explores the incidence of a set of defined growth-related behaviours, including innovation, exporting, accessing finance, business support and investment in training. There are mixed findings on these growth behaviours, with some seeing an increase over the period, others a decrease and others remaining steady.

One important area of decrease is in innovation activity. The proportion of firms reporting either product or service innovation was 30.4 per cent in 2021, and has decreased year-on-year to 24.1 per cent in 2024. Decreases in innovation activity have also been reported in other surveys, and we will return to this theme later in the report. Another growth-related behaviour that decreased in the LSBS panel survey was exporting. In 2021, 19.4 per cent of firms in the panel reported exporting either goods or services. This proportion steadily decreased to 18.1 per cent in 2022, to 17.5 per cent in 2023, and to 17.2 per cent in 2024.

On the other hand, the increase in firms acquiring external finance continues. External finance (excluding any Covid-19 related grants, loans or support from the Coronavirus Job Retention Scheme) was used by 8.2 per cent of businesses in the longitudinal panel in 2021, rising to 12.6 per cent in 2022, 13.3 per cent in 2023, and 15.9 per cent in 2024.

The LSBS also explores whether respondents use ‘external advice or information’ more broadly on matters affecting their business which involved more than a ‘casual conversation’. The findings here are reasonably steady. Around a quarter (27.3%) of the longitudinal sample sought business support in 2021. This figure decreased slightly to 25.3 per cent in 2022, increased again to 27.3 per cent in 2023 and was at 26.2 per cent in 2024.

In terms of employer investment in training, the data show that 42.6 per cent of the panel reported investing in employee training in 2021. This proportion increased to 47.5 per cent in 2022, before slightly decreasing to 46.8 per cent in 2023 and decreasing again to 45.8 per cent in 2024.

4 Small Business Survey 2024: panel report - GOV.UK

The panel report also provides evidence on the link between these growth-related behaviours and performance. One key finding here is that those firms that undertook innovation in 2021 and accessed external capital in the same year consistently outperformed those that did not. Training was also generally correlated positively with improved performance outcomes in terms of both employment and turnover. Firms making use of business support generally performed better in terms of turnover and employment. The relationship between growth and exporting is less clear from the survey evidence, and in some years, non-exporting firms outperformed exporting businesses.

1.2.2 SME financial health

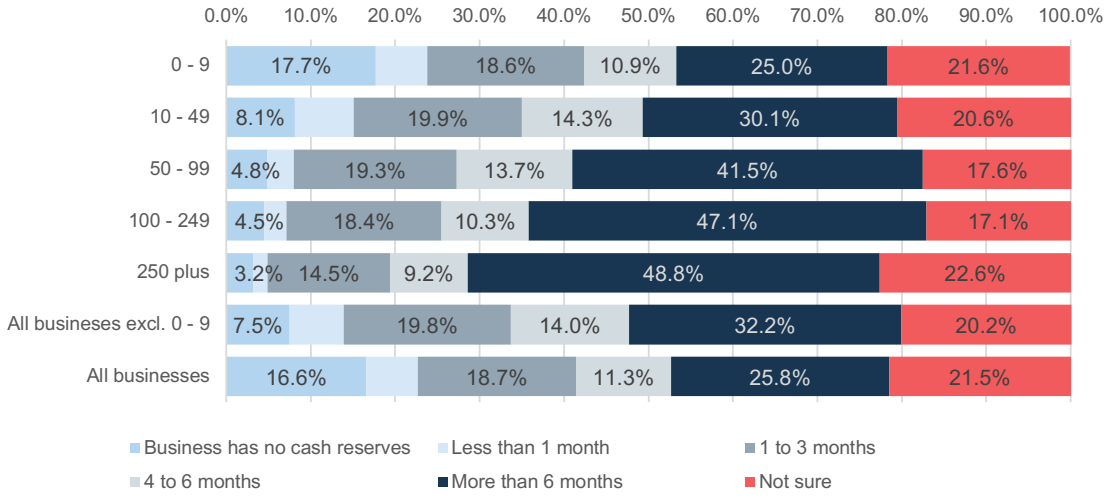
Since 2020, the Office for National Statistics (ONS) Business Insights and Conditions Survey (BICS) has provided a valuable source of information on a range of trends in UK businesses.[5] BICS is a voluntary fortnightly survey asking a range of questions about financial performance, workforce, prices, trade, and business resilience.

The BICS provides useful data on the financial health of UK businesses. One key measure here is cash reserves, or the money firms keep aside to meet their short-term and emergency funding needs. Figure 2 shows how long businesses think their cash reserves will last by size (using data from wave 141 of BICS in September 2025).

The data show significant variation in cash reserve adequacy across firm sizes. Overall, only about 26 per cent of businesses report reserves sufficient to cover more than six months of operations, while roughly 46 per cent hold reserves for three months or less, indicating limited liquidity buffers among UK firms.

Large firms (250+ employees) show notably stronger liquidity positions: nearly 49 per cent maintain reserves exceeding six months, and very few report having none. In contrast, micro firms (0–9 employees) face greater vulnerability, with 17.7 per cent reporting no reserves and only 25 per cent able to sustain operations beyond six months. Medium-sized firms (50–249 employees) fall between these extremes but lean closer to smaller firms in terms of risk exposure. Across these groups, a small share (around 3%) report reserves lasting less than one month, signalling acute short-term liquidity risks.

Figure 2: Businesses cash reserves by firm size



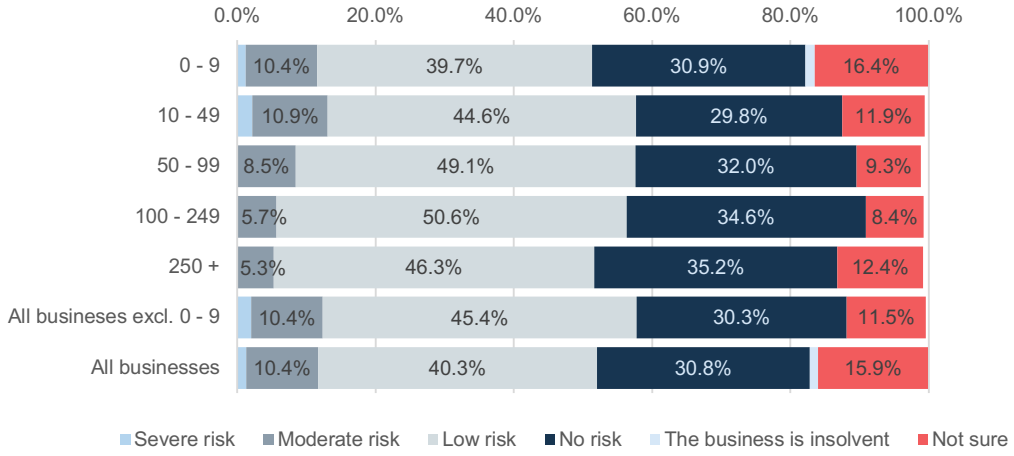
Source: ONS Business Insights and Conditions Survey data, Wave 141 (15th to 28th September, 2025).
Notes: Question: 'How long do you expect your business's cash reserves will last?'; as percentage of currently trading businesses, weighted count, UK.

5 Business insights and impact on the UK economy - Office for National Statistics

Another measure of financial health is insolvency risk. Figure 3 complements the liquidity analysis by illustrating perceived insolvency risk. Across all businesses, about 12 per cent report a moderate or severe risk of insolvency, 40 per cent indicate low risk, and roughly 31 per cent report no risk.

Consistent with the cash reserve patterns, smaller firms exhibit systematically higher insolvency risk: small firms (10–49 employees) report the highest combined share of severe and moderate risk (13%) and the lowest proportion indicating “no risk” (29.8%). Micro firms (0–9 employees) follow closely, with 12 per cent reporting moderate or severe risk. In contrast, large firms (250+ employees) appear significantly more insulated, with over one-third (35.2%) reporting no risk of insolvency and a markedly lower share facing severe risk. Notably, the presence of a sizable “not sure” category—particularly among smaller firms—likely reflects heightened uncertainty in business expectations rather than clear financial stability.

Figure 3: Risk of insolvency by firm size



Source: ONS Business Insights and Conditions Survey data, Wave 141 (15th to 28th September, 2025).
Notes: Question: ‘What is your business's risk of insolvency?’; As a percentage of businesses not permanently stopped trading.
Values for ‘Severe risk’ and ‘The business is insolvent’ are excluded for some sidebands due to low cell counts and resulting disclosure issues

1.3 Business concerns and challenges

As well as covering financial health, the BICS also provides useful information on other key concerns that are affecting businesses. There have been some marked changes and fluctuations here over the past few years, reflecting the changing economic context.

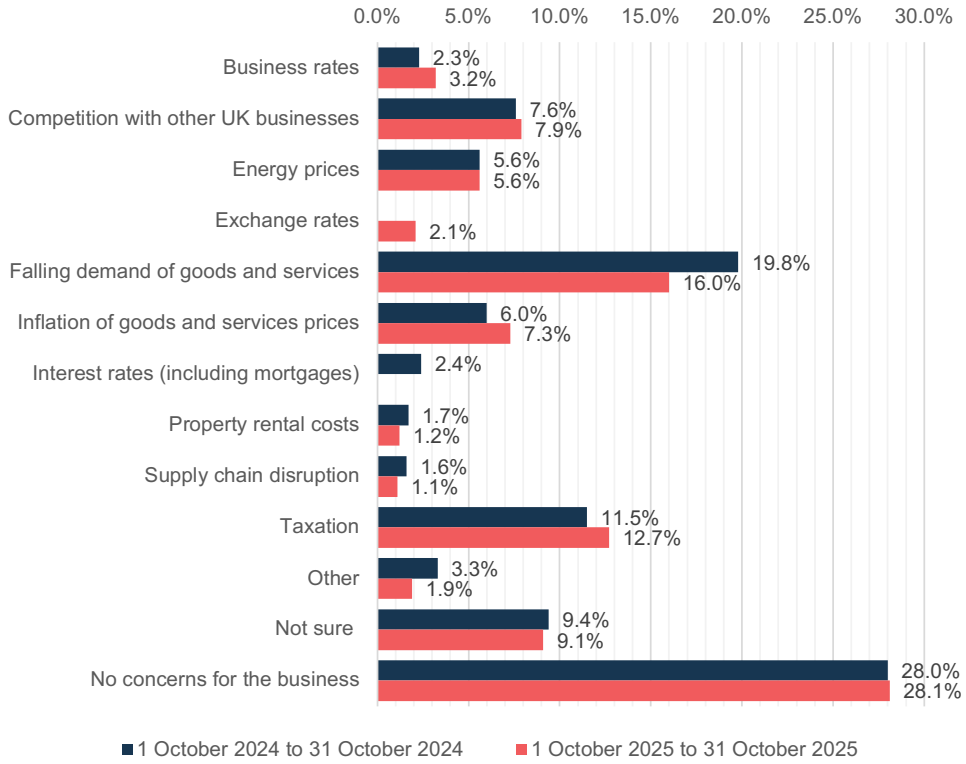
Figures 4 and 5 highlight the main concerns facing UK businesses, both overall and by firm size. Figure 4 compares concerns across two survey waves (October 2024 and October 2025), while Figure 5 breaks them down by firm size.

Figure 4 shows that a substantial share of businesses report no current concerns, accounting for 28 per cent in October 2024 and 28.1 per cent in October 2025, indicating relative stability in overall business sentiment over the period.

Among businesses reporting concerns, falling demand for goods and services remains the most prominent issue in both waves, though its prevalence declined from 19.8 per cent in October 2024 to 16 per cent in October 2025, suggesting improved perceptions of demand-side conditions. Taxation is another major concern, affecting 11.5 per cent of businesses in 2024 and rising slightly to 12.7 per cent in 2025, pointing to growing sensitivity to fiscal pressures.

Meanwhile, inflation in goods and services prices continues to be a key issue, with its share increasing from 6 per cent to 7.3 per cent over the same period.

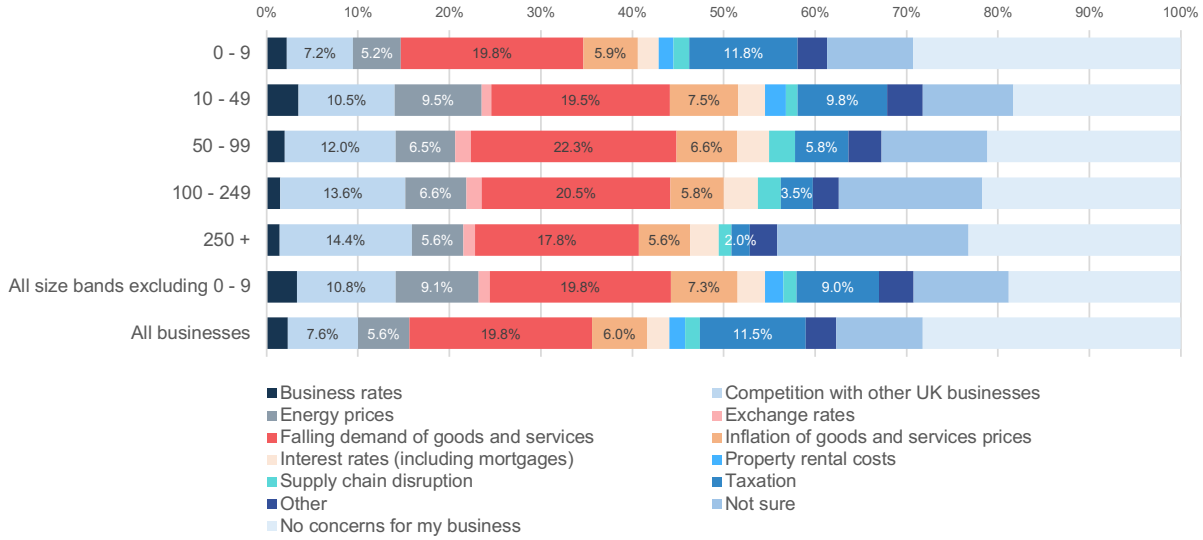
Figure 4: Business concerns (All businesses)



Source: ONS Business Insights and Conditions Survey data, Waves 116 (1 October 2024 to 31 October 2024) and 140 (1 October 2025 to 31 October 2025).
Notes: Survey Question: 'Which of the following, if any, will be the main concern for your business in October 2024 /October 2025?'; as a percentage of businesses not permanently stopped trading, weighted by count, UK. Some values are excluded due to low cell counts and resulting disclosure issues [e.g., Exchange Rates (2024), Interest Rates (2025)]

Figure 5 shows that falling demand remains the predominant concern across all firm size categories. Beyond demand-related issues, a notable proportion of micro and small firms express concern about taxation, affecting approximately 12 per cent and 13 per cent of firms, respectively. In contrast, medium and large firms are more likely to cite competition within the UK market as a key challenge, with 13–14 per cent identifying this as a concern. Additionally, energy prices persist as a significant issue for smaller businesses, with nearly 1 in 10 small firms (10–49 employees) reporting it as a concern (9.5%).

Figure 5: Business concerns by firm size



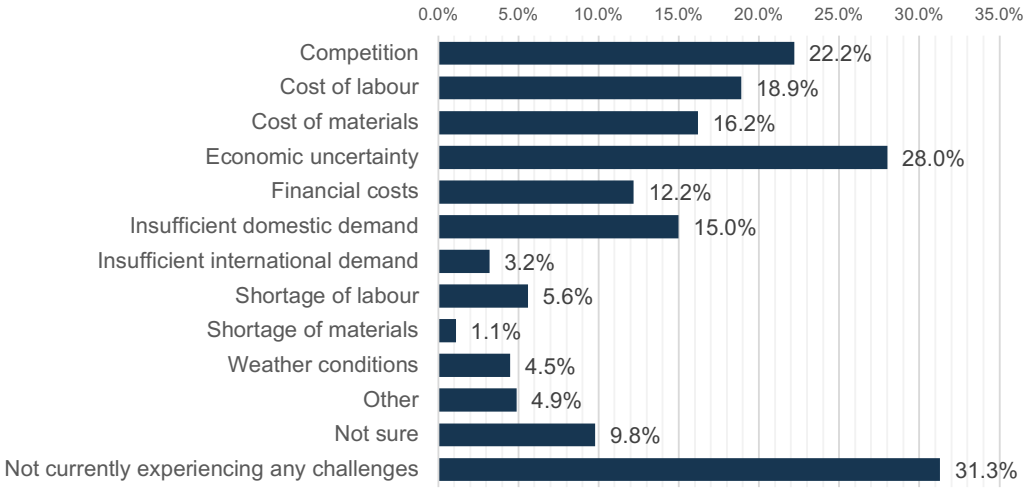
Source: ONS Business Insights and Conditions Survey data, 140 (1 October 2025 to 31 October 2025).
Notes: Question: 'Which of the following, if any, will be the main concern for your business in October 2023?'; as a percentage of businesses not permanently stopped trading, weighted by count, UK.

The BICS also explores the challenges that businesses feel are currently impacting their business's turnover specifically both in aggregate and by firm size.

Figure 6 indicates that economic uncertainty is the most frequently reported constraint, cited by 28 per cent of businesses. Competition ranks second, reported by 22.2 per cent, reflecting persistent pressure on margins and market share. Cost-related factors also feature prominently: labour costs (18.9%) and material costs (16.2%) remain significant constraints, suggesting that inflationary pressures in wages and input prices continue to weigh on turnover.

Notably, 31.3 per cent of businesses report they have no current challenges, underscoring substantial heterogeneity in operating conditions and resilience across the economy.

Figure 6: Challenges impacting turnover (all businesses)

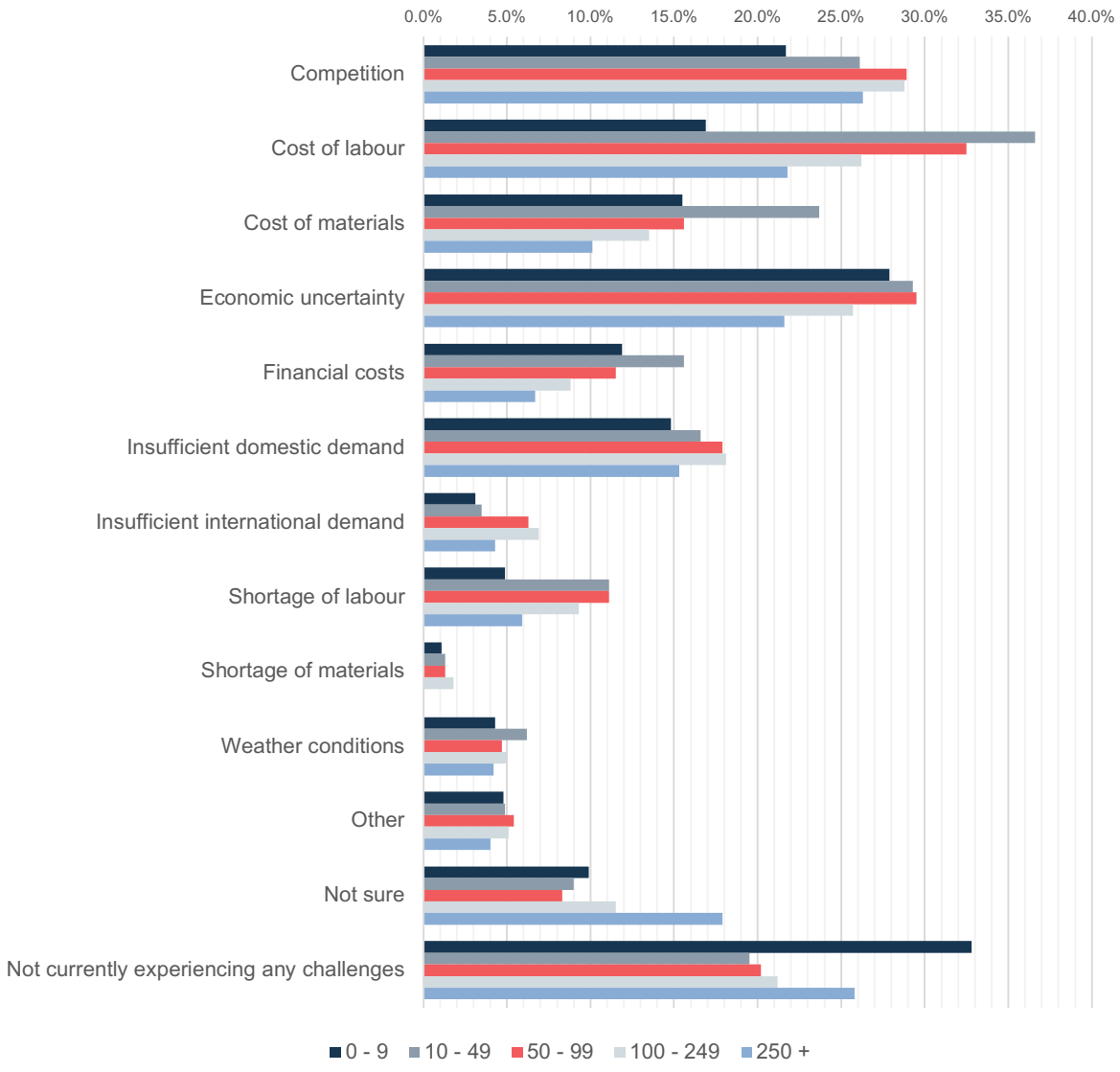


Source: ONS Business Insights and Conditions Survey data, Wave 140 (1 September 2025 to 14 September 2025).
Notes: Question: 'Which of the following challenges, if any, are currently impacting your business's turnover?'; as a percentage of businesses currently trading, weighted by count, UK.

Figure 7 reveals clear size-related differences in turnover constraints. Micro businesses (0–9 employees) report a more evenly distributed set of challenges, with economic uncertainty (27.9%) and competition (21.7%) most frequently cited, followed by labour costs (16.9%) and material costs (15.5%). This pattern suggests broad-based vulnerabilities among micro firms, reflecting limited financial buffers and heightened exposure to short-term fluctuations in both input costs and demand conditions.

Among small (10–49 employees) and medium-sized firms (50–249 employees), labour costs emerge as the dominant constraint, affecting 36.6 per cent of small firms and 26–33 per cent of medium-sized firms. By contrast, large firms (250+ employees) report comparatively lower exposure to most individual challenges, indicating greater resilience at scale.

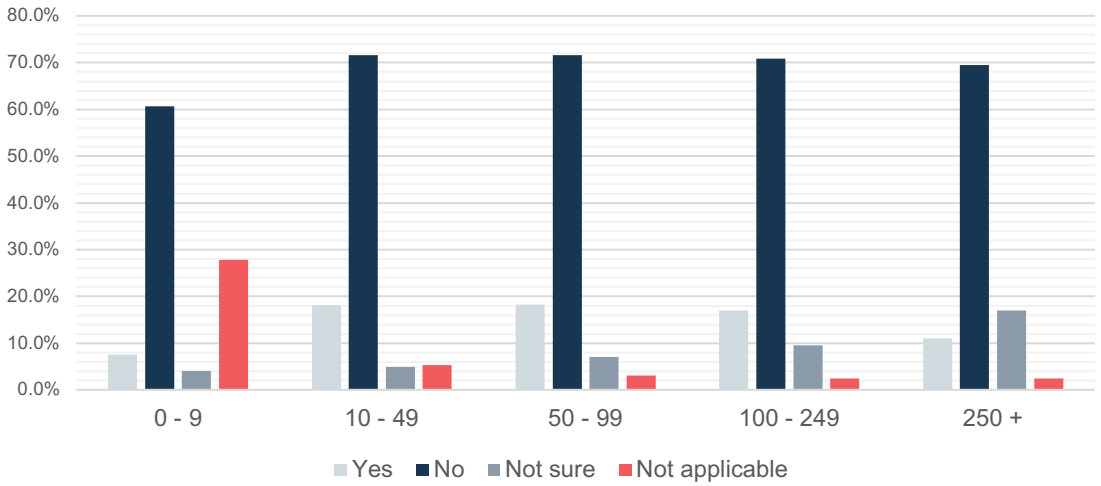
Figure 7: Challenges impacting turnover by size



Source: ONS Business Insights and Conditions Survey data, Wave 140 (1 September 2025 to 14 September 2025)
Notes: Question: 'Which of the following challenges, if any, are currently impacting your business's turnover?'; as a percentage of businesses currently trading, weighted by count, UK.

One business challenge that has received attention in the media in recent years is the issue of recruitment difficulties – namely labour and skills shortages. However, the BICs survey findings indicate that labour shortages were not widespread in 2025: only 8.7 per cent of businesses reported experiencing a shortage of workers during the survey period. Figure 8 reveals that there are important differences here though around business size. Micros (0–9 employees) reported the lowest incidence of shortages (7.6%), alongside the highest proportion indicating that worker shortages are not applicable (27%), likely reflecting their reliance on owner-managers or a small, stable workforce. In contrast, small and medium-sized enterprises (10–249 employees) exhibited a higher prevalence of labour shortages, with approximately 17–18 per cent reporting shortages, suggesting that growing firms face greater challenges in recruitment and retention as their labour requirements grow. Large firms (250+ employees) report a lower incidence (11%) compared to SMEs, indicating relatively greater ability to meet workforce needs.

Figure 8: Labour shortages by business size



Source: ONS Business Insights and Conditions Survey data, Wave 140 (1 September 2025 to 14 September 2025)
Notes: Question: 'Is your business currently experiencing a shortage of workers?'; as a percentage of businesses not permanently stopped trading, weighted by count, UK.

1.4 Summary

Recent headline data highlights some important trends in the world of entrepreneurship and small business in the UK. Encouragingly, data from the Global Entrepreneurship Monitor shows that the UK is significantly more entrepreneurial than it was two decades ago, with evidence of a positive change in attitudes towards entrepreneurship, as well as a noticeable shift in the representation of women and the age distribution of early-stage entrepreneurs towards younger age groups. There are also other potentially encouraging trends continuing to unfold, such as increasing proportion of firms accessing external finance.

However, at the same time, evidence also points to a continued decline in some important growth-related behaviours amongst small businesses, particularly exporting and innovation activity, building on pre-existing downward trends. Underpinning this are significant challenges associated with economic uncertainty and increasing competition, and for smaller businesses in particular, increasing challenges around labour costs.

All this is taking its toll on the confidence and the investment behaviour of small businesses, with longer term implications for growth, productivity and also individual wellbeing. In the next chapters we turn to look at the findings from ERC research undertaken and published during 2025, and consider how these can help us better understand these and other trends, and possible policy responses to them.

2. Business Growth and Investment

Business growth is a central research theme for the ERC, and has been so since the inception of the Centre back in 2013. We continued to build valuable insights in this area through our research in 2025, with a focus on understanding patterns of growth, access to finance and the drivers of business investment.

2.1 Understanding patterns of small business growth

Previous ERC research has persuasively made the case that small business policy should not be focused only on targeting narrowly-defined 'high-growth' or 'fast growth' firms, but should instead recognise the realities of the 'episodic' nature of business growth, and take a more inclusive approach. We have also developed a range of growth metrics, reflecting the fact that business growth can be defined in different ways, enabling a more granular analysis.[6]

We have used these metrics over the years to map the geography of business growth, showing interesting regional variations.[7] In a paper published in 2025, we re-examined the geography of high-growth firms (HGFs) in the UK to understand why some regions consistently produce more of them.[8] The paper extends recent work by analysing the influence of entrepreneurial ecosystems and knowledge 'spillovers' on local high-growth activity, using a refined longitudinal dataset covering 379 Local Authority Districts from 2009 to 2021. The study addresses earlier methodological weaknesses to provide more reliable evidence for regional policy.

In line with previous critiques of the OECD HGF metric and the associated 'scale-up' agenda, the paper treats the standard HGF definition as a pragmatic descriptive tool, rather than a basis for firm-level 'picking winners'. The research complements previous work by shifting the focus from predicting or targeting individual high-growth firms to understanding the regional conditions under which high-growth episodes repeatedly occur. In doing so, it emphasises structural, place-based determinants of growth, consistent with calls for a more nuanced and context-sensitive approach to small firm policy.

The results show a strong persistence in regional HGF incidence over time, despite the short-lived and unpredictable nature of firm-level high-growth episodes. This suggests that some places hold longer-term structural advantages that support repeated waves of scaling firms. Among the most robust facilitators of high-growth activity are core ecosystem features: a skilled labour pool, a concentration of business and professional services, and a strong presence of creative industries. Indicators of innovation capacity, such as higher R&D employment, and more Innovate UK grant applications, are also consistently associated with stronger high-growth performance at the regional scale.

By contrast, the role of knowledge spillover - traditionally viewed as a central driver of regional innovation - proves less straightforward, with statistically fragile results, pointing to a need to re-evaluate the assumptions underpinning spillover-led regional growth strategies.

6 From the Cabinet of Curiosities: The misdirection of research and policy debates on small firm growth - Mark Hart, Neha Prashar, Anastasia Ri, 2021
7 UK Local Growth Dashboard 2019 - Enterprise Research Centre NI Local Growth Dashboard 2024 | Department for the Economy
8 Knowledge Spillovers, Entrepreneurial Ecosystems and the Geography of High Growth Firms Redux - Enterprise Research Centre

These findings of this research confirm substantial and enduring disparities in the ability of UK regions to generate HGFs. Yet the mechanisms behind this persistence remain only partly understood. Policies that focus on individual firms have had limited effectiveness, but regional-scale 'picking winners' may likewise fall short without a deeper grasp of the structural ecosystem features that matter most. As such, the study emphasises the importance of a more evidence-driven, place-sensitive approach to local growth policy.

In another study published in 2025 we continued to explore the different determinants of SME growth and productivity, analysing panel data from the LSBS from 2020-2023.[9] This research looked into whether business characteristics, capabilities, export-orientation, future business intentions, and performance had an influence on growth and productivity during the time period. It also explored the impacts of different types of business support, and of external finance on SME performance and ambition, and the effect of environmentally-oriented business intentions.

The findings highlighted the critical role played by several firm-level characteristics, particularly size, age, sector, environmental and strategic orientation, in growth ambitions and productivity outcomes. For example, firms that had employees, formal business plans, and separate premises consistently demonstrated a stronger growth orientation and higher productivity. This could indicate that elements relating to organisational capacity and strategic planning are factors in enhanced performance.

Access to external finance was also found to be positively associated with improved turnover and employment outcomes. Furthermore, a growing number of SMEs in the panel embraced environmental goals, and by 2023, those prioritising environmental objectives were significantly more likely to rank in the highest productivity quartile, demonstrating a link between greater environmental commitment and productivity performance.

In terms of sector and firm age, the analysis showed that transport, retail, and hospitality sectors showed stronger growth ambitions than business services and other service sectors. Younger firms (especially those 6-10 years old) were more growth-oriented, while older firms (20+ years) tended to be seeking to maintain operations rather than grow. However, larger and older firms, especially in production and construction sectors, consistently outperformed smaller and younger firms in terms of productivity. Geographic factors were less influential on growth ambitions.

The analysis also showed that innovation and export orientation were drivers of productivity gains. Innovation was consistently associated with moderate productivity improvements. Exporting firms showed a shift toward higher productivity over time, though it should be noted that export participation remains low. Non-exporting firms dominated the lower productivity ranges.

This report findings suggest several policy measures could be useful to enhance SME growth and productivity, and encourage the net zero transition. One area emphasised is the importance of planning and longer-term horizons for SMEs. The study also highlights the value of grants and business advice to enhance business planning. Sector differences also point to a need for tailored support strategies. The findings also suggest that the promotion of grants and support for key areas, including exporting and innovation could also be a policy option that with growth and productivity benefits. Improving awareness and access to affordable external finance, such as low-interest loans and alternative financing models could also bring better growth and productivity outcomes. The findings also suggest that there could be wider benefits from incentivising environmental engagement in firms, and that aligning this with financial and business support could facilitate green sustainable growth and productivity.

9 Longitudinal Exploration of the Role of External Finance in Helping SMEs Achieve Growth, Higher Productivity and Potential in Relation to their Transition to Net Zero - Enterprise Research Centre

2.2 Business investment decisions

The low level of business investment in the UK compared to competitor economies is frequently cited as one reason for slow productivity growth. The effects of the business environment - such as uncertainty and capital costs - on investment are well understood. However, much less understood is what actually drives business investment and how companies actually make their investment decisions. We started new research exploring this in 2024, and we continued to build on this in 2025.

The work explores two types of investment - tangible (capital investment) and intangible. Tangible investment consists of physical assets such as machinery, equipment, vehicles, etc., whereas intangible investment refers to non-monetary assets such as R&D, intellectual property, branding, marketing, staff training, etc.

Our earlier research involved reviewing existing evidence and identified several factors affecting firms' business investment decisions. These included firm size and exporting status - with larger business size and exporting activity being associated with higher investment. The financial health of the firm was another factor influencing investment, with financially better-off firms investing more in both tangible and intangible assets. Higher human capital - i.e., training, skills, knowledge, technical expertise etc., was also found to be positively linked with business investment, particularly into intangibles, as were better management practices. In addition, the perceptions and motivations of business leaders also affect investment behaviour, with a positive attitude towards business growth making decision-makers more likely to invest.

To understand why and how firms make investment decisions, in 2025 we also conducted a large-scale survey of 1,623 UK firms, funded by the Productivity Institute, with support from the Scottish Government and Development Bank of Wales. The survey was limited to private firms with 10 or more employees and those that made 'significant' investments (>£5,000) in any year between 2019 and 2024. The key results, based on weighted survey data, are as follows:

- Firms' **strategic objectives prioritised core business goals**, especially sustaining cash flow and increasing efficiency (94%). Social objectives, such as generating social or community benefits, were less often considered important (62%). These strategic objectives were common across business size bands, sectors and locations.
- **Investment motivations aligned closely with these strategic objectives**. Increasing company profit and growth was often cited as the primary purpose of investment (c. 28% of firms). **Productivity improvement was often cited as one objective of investment (80% for tangible investment), but was rarely the main objective of the investment (11%).**
- **Investment planning is often informal, especially in smaller firms**. 48 per cent of firms lacked an investment plan. **Less than half of firms had a target rate of return on investment** – 42 per cent of firms making tangible investments and 31 per cent making intangible investments. Among those firms looking to achieve a specific rate of return, about a third of firms expected an annual rate of return of up to 8 per cent. A similar proportion expected it to be more than 14 per cent.
- **Most firms invested consistently**, making an average of four 'significant' investments each year between 2019 and 2024. Smaller firms and those with lower turnover made fewer investments. **Most investments involved tangible assets**, either solely (49%) or in combination with intangible assets (37%). **Internal company funds were the most common source of investment by far**, although a significant proportion of firms used external funding for tangible (44%) and intangible investments (30%).
- **External shocks adversely affected investment**, especially between 2019 and 2021. 51 per cent of firms reported impacts from Covid-19. Brexit and the crisis in the cost of doing business negatively affected 44 per cent of firms.
- We found little evidence of regional differences in firms' motivations for investment or their investment decision processes.

We also published a research report drawing on the findings specifically for Wales.[10] This analysis showed that Wales is undergoing a shift in business investment behaviour, with businesses investing more consistently and heavily in intangible assets - people, skills and branding, and in digital technologies, compared to businesses elsewhere in the UK.

Previous research has shown that uncertainty profoundly shapes organisational decision-making and behaviour. In 2025 we published an ERC SOTA Review that summarised the evidence on how firms - and particularly smaller firms - respond to policy uncertainty.[11] Uncertainty in general has become a defining feature of the contemporary business environment, as evidenced in some of the official data discussed in Chapter 1. The experiences and adaptive responses of small firms to policy uncertainty, however, has been underexplored in the past.

The size and resource constraints of small businesses make them especially vulnerable to making irreversible and potentially damaging decisions, so it is important we understand the potential effects on this group of firms. The SOTA review explored the different dimensions of policy uncertainty, including regime volatility (which covers shifts in political leadership, strategic priorities and frameworks), instrumental ambiguity (covering unpredictability in policy implementation), and wider geopolitical tensions and uncertainties. The review concluded that policy uncertainty has evolved into a structural feature of the economic landscape, presenting heightened risks and permeating all aspects of decision-making in small firms, including investment as well as other areas such as employment and resource allocation. Uncertainty can act to delay or deter firm activity, but there is limited evidence on the experiences of small businesses and their responses.

The review presents a number of lessons for policymakers seeking to enhance small business resilience and competitiveness. These include minimising where possible avoidable uncertainty, for example that arising from abrupt policy changes or inconsistent messaging, and ensuring that policy changes are communicated carefully, consistently and clearly. There is also a case for public programmes building internal adaptive capabilities within small businesses, for example providing training for small businesses in areas such as risk management and scenario planning. In summary, the resilience of small businesses will depend on a combination of effort to create coherence, transparency, and consistency with the external policy environment alongside development of internal capabilities.

10 Productive investment decisions in Welsh firms
11 SMEs under uncertainty: What evidence tells us about policy shocks and firm performance - Enterprise Research Centre

The importance of entrepreneurial alertness and orientation for growth

Previous research has emphasised the importance of 'entrepreneurial orientation' (EO) - or a strategic mindset focused on innovation, risk-taking and proactivity for growth. Firms with higher EO are often associated with higher performance in terms of sales and productivity.

Previous research has tended to emphasise the fundamental importance of the outlook of business leaders in shaping EO in firms, but are there ways in which we might encourage businesses to maintain and enhance their level of EO rather than seeing this as a fixed leadership characteristic? An ERC paper published in 2025 explored the extent to which entrepreneurial alertness (EA) enables SMEs to sustain entrepreneurial orientation (EO), and improve their business performance.[12]

The study findings suggest that EA is an important managerial practice that can enhance a firm's EO. EA consists of three processes: scanning and search; association and connection; and judgment and evaluation. Scanning and search involves information acquisition, e.g., reading trade publications, going to trade shows. Association and connection covers activities which involve the processing of information, for example, being good at 'connecting the dots'. Judgment and evaluation are also information processing activities, for example including the skill to distinguish high-value and lower value opportunities. Our study found that the combination of information acquisition (scanning and search) with one of the two information-processing stages, either association and connection, or judgment and evaluation, is sufficient to improve a firm's EO.

What are the practical implications of this? Thinking about pathways to improving EO, our research indicates that policy action should focus on developing a balance of information acquisition and processing in small firms. This balance could be embedded in entrepreneurship courses and business advice. In resource-constrained contexts, interventions might prioritise adaptive cognitive strategies over rigid planning models. Policy makers might also want to consider including information about 'stopping rules' when searching information to include overload issues (e.g. you might stop after a certain time of searching or after looking at three credible sources). After this, the processing should take over. SME managers might institutionalise EA by assigning roles for environmental scanning, and embedding decision frameworks that integrate scanning with processing. In addition, leveraging technology for pattern recognition and evaluation could accelerate and strengthen these capabilities.

2.3 Access to finance

Seeking and obtaining external finance is positively associated with growth in SMEs, and is recognised as a key growth-related behaviour. However, previous evidence tells us that SMEs consistently report using no external finance, and that many small businesses rely on short-term, high-cost sources such as credit cards and overdrafts. There are also clear disparities in terms of access and use of external finance between male and female-led businesses, across sectors and regions. Analysis of LSBS data shows that government grants played a temporary role during the pandemic years, peaking in 2020–2021, but they declined sharply by 2023, alongside a decline in other grants, indicating a shift away from direct public support.[13]

12 Entrepreneurial Alertness in Dynamic Environments: Mediating Pathways to Entrepreneurial Orientation and Performance - Enterprise Research Centre

13 Longitudinal Exploration of the Role of External Finance in Helping SMEs Achieve Growth, Higher Productivity and Potential in Relation to their Transition to Net Zero - Enterprise Research Centre

Research also shows that profitability enhances access to finance, reflecting the preference of lenders for more financially stable firms.[14] Access to finance is notoriously difficult for early-stage enterprises in particular. In 2024 we started research that examined access to and use of equity finance amongst UK early-stage ventures, and this work continued in 2025.

Equity finance provides an important alternative for firms to bank debt finance. This is especially important for innovative ventures that are pre-revenue and lack a financial history. Early-stage equity can effectively support the commercialisation strategies of potential high-growth firms. Our research involved the first national survey looking into the process of how potential high growth start-up businesses access their first formally reported round of equity finance. The work was conducted in two phases: from January to June 2023, and from September 2024 to April 2025.[15]

In our study, fewer than one-third of early-stage applicants obtained all the equity they sought in the year before the survey, and even successful applicants often submitted numerous applications. Nearly half of applicants applied to five or more finance providers, and most applied to four or more, showing that securing equity remains a lengthy and challenging process.

Pre-trading ventures exhibited significantly higher search activity compared to trading ventures. Multiple applications were common: 52 per cent of ventures submitted five or more applications and 64 per cent submitted four or more. The highest activity is observed at the proof-of-concept pre-trading stage, where over two-thirds of firms applied to five or more providers, compared to 43 per cent among the most established trading ventures.

The presence of Board Advisors, NEDs, and CFOs correlated with higher application rates and better success, suggesting a role for capacity-building interventions. Econometric evidence from comparable programmes showed strong performance gains for VC-backed ventures, including higher employment, greater R&D investment, increased valuations, and better follow-on funding prospects, supporting policies aimed at earlier and timely VC access for high-growth potential ventures.

The most common reasons for not pursuing equity related to the early stages of business development, including a reluctance to lose control of the business and a preference for other types of funding. Women-led ventures were less likely to seek equity compared to male-led ventures. Both women-led and ethnic-minority-led ventures were more likely to face rejection in the very early stages of the application process - initial contact or the first email exchange. Women-led firms and ethnic minority-led firms were less likely to secure all the equity they sought.

An inability to secure equity investment, or receiving less equity than required imposes clear negative impacts on growth. A lack of equity led to delays in launching products or services to the market, challenges in technology development, and difficulties in recruitment. Nearly two-thirds of underfunded ventures reported constraints on business growth, and over half reported slowed technology or product/process development. The study identifies additional direct costs: delayed progress and diverted managerial attention from seeking finance, although the long-term effects of these setbacks remain unclear due to limited longitudinal evidence within the study.

14 Longitudinal Exploration of the Role of External Finance in Helping SMEs Achieve Growth, Higher Productivity and Potential in Relation to their Transition to Net Zero - Enterprise Research Centre
15 Understanding equity access and use in early-stage ventures - Enterprise Research Centre

2.4 Late payment

Another aspect of small business finance that has received increasing attention in recent years is the practice of unfair or late payment practices. Late payment practices - which include delays to invoices being paid and long payment terms - have been recognised as causing serious cashflow issues and major barriers to small business growth. As a consequence this is an issue that has become a focus of government policy, leading to the establishment of the Office of the Small Business Commissioner (OSBC) in 2016 - a body dedicated to tackling late and unfair payment practices. The ERC contributed to a study published this year led by London Economics for the Department for Business and Trade and the OSBC that aimed to assess the impact of late payments.[16] The report defined late payment as including overdue invoices, where businesses are paid beyond the agreed or contractual payment, and long payment terms, where businesses agree to payment more than 60 days after goods or services have been delivered.

The research involved a quantitative survey of 1,455 businesses in January and February 2025, and econometric analysis of secondary data to assess the impact of late payments on business survival and investment. In addition, the research also involved a quantification exercise, drawing together the results of the survey and econometric analysis, estimating the cost of late payments to businesses and also to the wider economy.

The study found that the estimated cost of late payments to the UK economy is almost £11 billion per year. 28 per cent of businesses are affected by late payments each year, and businesses are owed an estimated £26 billion in late payments at any given time - an average of £17,000 per business affected by late payment. There are also implications in terms of staff time, with 22 per cent of businesses stating that they had staff spending time chasing late payments. This amounted to an average of 86 hours per business affected by late payment per year and 133 million hours of staff time across the economy each year. In addition, 14,000 businesses are estimated to close each year as a result of late payments, the equivalent to 38 businesses every day.

The research powerfully highlights the impact of late payment on both businesses and the economy. Although businesses of all sizes are affected, it is an issue to which small firms are especially vulnerable. The survey findings showed that micro-businesses affected by late payments on average had the highest share of their turnover tied up in late payments (4.61%), with this share declining with size. Given the size of the problem, it is clear that there is a strong case for action to improve payment culture in the UK, which would bring particular benefits for smaller firms.

2.5 Summary

ERC research has raised awareness of the complex patterns of small business growth, and improved understanding of the specific growth barriers faced by small firms. Research in 2025 has added to this evidence base.

It is important that the UK has a healthy pipeline of new business ventures, and that those with potential are able to invest and grow, but the evidence shows that there are some key barriers holding firms back.

Access to finance again emerges as a key issue for small businesses, alongside late payments. New analysis points again to some well-trodden themes for the ERC – namely the important role played by innovation and exporting in driving growth and productivity, as well as the importance of long-term business planning. The evidence shows that recent external shocks have undoubtedly adversely affected business investment in small firms, particularly Brexit and Covid-19. In this context, and given the wider turbulence in the economic and political environment, it is crucial to create more stable policy and ecosystem conditions that give small businesses confidence to invest.

16 Late payments research - GOV.UK

3. The Small Business Ecosystem

ERC research has consistently highlighted the importance of the health of the UK's small business ecosystem, or the network of institutions, organisations and individuals that work to support small business creation, survival and growth. In 2025 we added further insights to the knowledge base through our continued contributions to the Global Entrepreneurship Monitor (GEM) Survey, as well as research and commentary on business support.

3.1 Entrepreneurship framework conditions

The GEM Global study has created a tool that enables an assessment of an economy's entrepreneurial ecosystem against a set of Entrepreneurship Framework Conditions (EFCs). To provide an overall view of how favourable an environment is for entrepreneurial activity across countries, GEM introduced the National Entrepreneurship Context Index (NECI) in 2018, assessed by national experts. Scores for 13 framework conditions are evaluated on a scale from 0 to 10, with 5.0 representing a key 'sufficient' threshold. EFC scores below 5.0 are considered to indicate inadequate or insufficient conditions to support entrepreneurial activity, while scores of 5.0 or above are regarded as adequate, growing in strength the higher the number.

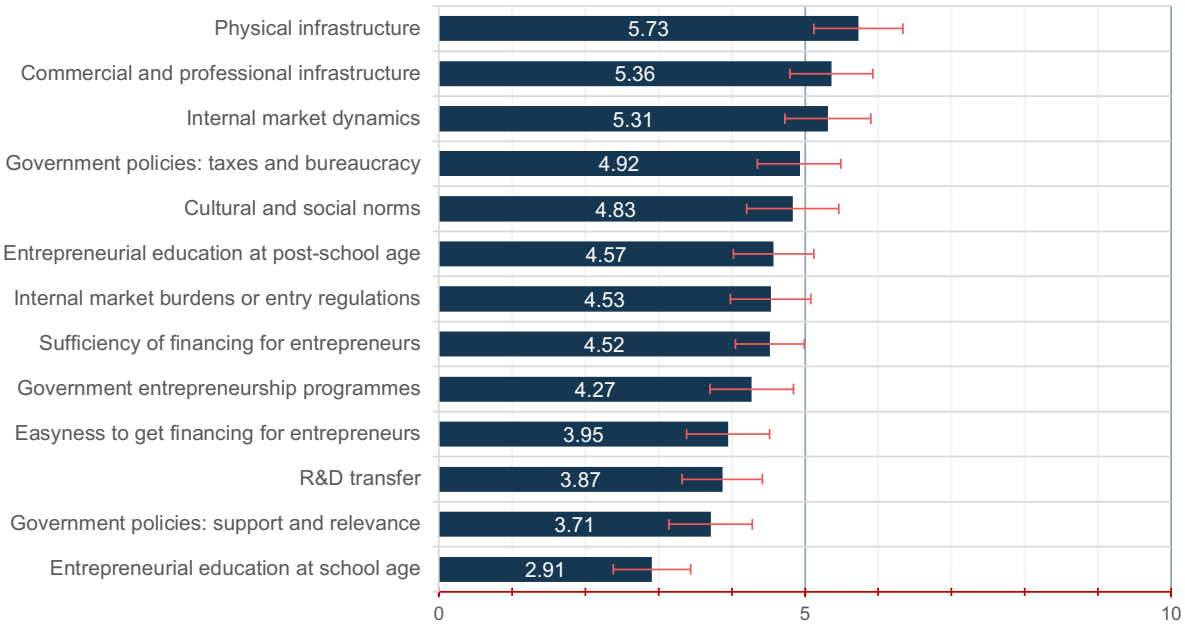
The picture for the UK presented in the most recent 2023/24 GEM Global report is concerning.[17] Many of the deficiencies that were identified with the UK's entrepreneurial ecosystem at the start of the millennium remain present. The overall quality of the UK entrepreneurial environment as assessed by national experts continues to decline slowly, with the NECI score (based on an average of 13 individual Framework Condition scores) falling 10 per cent since 2020 from 5.0 to reach 4.5 in 2024.

In 2024, just three conditions scored at better than sufficient (i.e. achieving a score of more than 5.0). These were Commercial and Professional Infrastructure; Ease of Entry; Market Dynamics; and Physical Infrastructure). Six other conditions were seen as less than sufficient, and three as poor. Entrepreneurial education at school age is the weakest area, with government policies: support and relevance, R&D transfer, easiness to get financing for entrepreneurs all scoring below 4.0. Government policies: taxes and bureaucracy, cultural and social norms, entrepreneurial education at post-school age, internal market burdens or entry regulations, government entrepreneurship programmes, and sufficiency of financing for entrepreneurs scored over 4.0, but this means they were still considered insufficient and in need of significant improvement (Figure 9).

Compared to 2023, eight out of thirteen EFCs were downgraded, with the remaining five either improving only marginally or remaining stable. Financing emerges as a key area of concern. For the third year in a row, the sufficiency of financing for entrepreneurs was rated as below adequate, with the score decreasing from 4.83 to 4.52. Easiness to get financing for entrepreneurs also decreased slightly during the period.

17 GEM Global Entrepreneurship Monitor

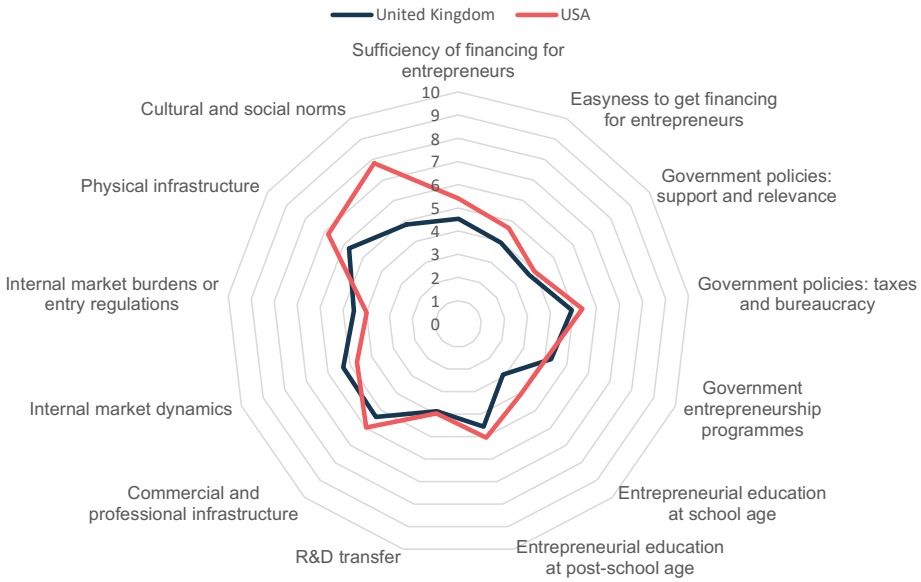
Figure 9: Entrepreneurial Framework Conditions in the UK in 2024



Source: GEM UK National Expert Survey 2024
Note: EFCs scale: 0 = very inadequate, insufficient status; 10 = very adequate, sufficient status; black bars represent the 95% confidence intervals

Looking internationally, as Figure 10 below shows, the UK's framework conditions relatively closely mirror those in the US. For three EFCs, scores are higher in the UK, namely entrepreneurial education at school age, internal market burdens or entry regulations, and government policies: taxes and bureaucracy. But for the remaining ten pillars, UK scores are lower compared to the US. However, these differences are statistically significant only for cultural and social norms, where the UK score is significantly lower.

Figure 10: EFCs in the UK and US 2024



Source: GEM NES 2024
Note: EFCs scale: 0 = very inadequate, insufficient status; 10 = very adequate, sufficient status; black bars represent the 95% confidence intervals

In 2024 the NES also included some special questions on the level of advancement in terms of United Nations Sustainable Development Goals (SDGs). In the UK, three out of five of these SDG measures received scores higher than 5.0. Perceived social contribution and social responsibility of UK firms shows the highest score at 5.77, followed by firms' environmental practices at 5.39 and cultural norms for sustainability at 5.6. Diversity, economic opportunities, and performance received a score just below sufficiency at 4.79, while government policy: business sustainability had the lowest score of 4.26. The UK also performs comparatively poorly on this latter measure when compared to benchmark countries.

The NES also asked about the level of support available to female entrepreneurs. The level of support for women's entrepreneurship in the UK was evaluated as inadequate, with a low score of 2.61. This is below that of the US (2.82), France (3.76), and Germany (3.51). However, the accessibility of resources for women entrepreneurs in the UK was rated as relatively strong, with a score of 6.12, compared to 6.39 in the US, but higher than France (5.51) and Germany (5.21).

Undoubtedly the UK's EFC scores reflect the combined effects of major global economic uncertainty and major events including the Covid-19 pandemic and Brexit, with other countries facing similar challenges. However, the fact remains that some countries have continued to improve their entrepreneurial ecosystems in some areas, pointing to some clear weaknesses in the UK context that are holding back the growth ambitions of many small business leaders.

3.2 Business support

The provision of business support and advice is a key part of the small business ecosystem, playing an important role in business survival and growth. ERC research has filled several evidence gaps on the links between business support and small firm performance. New research published in 2025 added to this knowledge bank.

We have undertaken research previously into the effectiveness of the account management approach in business support and we have extended this work this year.[18] Account management involves support organisations taking strategic approach to the management of relationships with key businesses with growth potential, providing tailored advice and guidance. Our new research explored the effectiveness of the account management (AM) activities offered by the Coventry & Warwickshire Growth Hub.

The research employed econometric analysis to measure the impact of AM on vital metrics like turnover, employment, and productivity growth. It sought to demonstrate the difference between businesses who engaged with AM provided by the Growth Hub compared with those who did not. Two cohorts of AM firms were analysed as part of this evaluation - 'Active' and 'Engaged Maintenance' firms. Using data provided by the Growth Hub, the companies were matched to an extensive database of UK firms provided by DataGardener.[19] This allowed a group of comparable firms to the Active and Engaged Maintenance firms to be selected, facilitating comparative analysis and assessing the programme's effectiveness. The database includes several financial variables over time, allowing a time-series analysis of AM firms. The research also involved qualitative research via a business leader roundtable.

The econometric analysis revealed that for the current Active firm cohort, the AM intervention positively and significantly impacted employment. The roundtable discussion also showed strong satisfaction with the AM approach for providing personalised support and helping firms navigate the complex business support ecosystem. The overall consensus from the qualitative research with AM supported business leaders was that the benefits received were additional, meaning they would not have occurred at the same scale or pace without the Growth Hub's support.

18 Evaluation of Account Managed Clients for Coventry and Warwickshire Growth Hub - Enterprise Research Centre
19 Largest Company Database | UK Companies Information Provider

The study findings demonstrate the value to firms of personalised support provided by AMs that is tailored to the specific needs of their businesses. Business leaders highlighted the crucial role that AMs played in getting to know them as leaders as well as learning about their business. This knowledge enabled the AMs to effectively diagnose appropriate support and successfully navigate the current system and its plethora of intermediaries.

In summary, the importance of our latest study lies in its validation of the Account Management approach employed by the Coventry & Warwickshire Growth Hub. The report suggests that this can be held up as an 'exemplar' model - demonstrating that this personalised method is crucial for enabling navigation of the fragmented business support system and delivering measurable, highly additional positive impacts on client businesses, including increases in skills, confidence, sales, and employment.

Business support was also the driving theme of the ERC's State of Small Business Britain conference in December, with many additional insights shared on the day, both by speakers and delegates.[20] Several overarching themes emerged during the day, including the need to meet small businesses and entrepreneurs 'where they are' rather than providing off-the-shelf support that makes assumptions about their needs. This includes providing tailored support for underserved entrepreneurs as well as for micro-businesses - who share distinct support needs from larger businesses, and also reflecting the realities of those working in the 'everyday economy'. We will return to the theme of micro-businesses later in this report. Another key theme raised was the vital role played by the network of trusted community and local enterprise support organisations in enabling business growth.

Supporting exporting in women-led firms

New research published in 2025 explored the issue of gender how influences exporting activity, and the implications for business support.[21] The study analysed LSBS data from between 2018-2023 to understand the factors contributing to gender gaps, supplemented with interviews with a small purposive sample of women-led firms. The findings support the existence of a gender gap in exporting. This was related to differences in the sectors in which women-owned businesses are more likely to be based, but the research also highlighted evidence of other challenges, including demand-side discrimination in foreign markets in some country contexts.

The results have a number of implications for policymakers wanting to create a more inclusive export ecosystem. The underrepresentation of women-led businesses in exporting provides a rationale for targeted support. To raise awareness among women-led businesses, targeted outreach campaigns featuring women-led exporting firms as role models could be beneficial. The results also highlighted the potential value of product innovation and business advice in helping to close the gender exporting gap, as women-led firms engaging in these activities were more likely to also be exporters. This suggests that alongside focused support to encourage greater exporting activity amongst women-led firms, there is potential benefit from providing more business advice and helping women-led firms to enhance their innovation activities.

20 ERC State of Small Business Britain Conference 2025 - Enterprise Research Centre
21 Growing Pains: Supporting Inclusive Growth Through Understanding Women-led Business Exporting - Enterprise Research Centre

To plan or not to plan? Business planning and growth

Business planning is often promoted as good practice in management and is seen as a prerequisite for small firm success. However, existing research offers mixed evidence on its effectiveness – is a plan really necessary for growth, and should it be a focus for business advice?

An ERC paper published in 2025 explored business planning persistence and its relationship with productivity, using LSBS panel data.[22] The research involved analysing planning behaviour over time, productivity (measured by turnover per employee), and a selection of firm attributes, including age, size, exporting activity, and technology use.

The study found that planning behaviours tend to be quite fixed. In other words, firms that plan tend to continue planning over time, while non-planners are even more likely to persist in non-planning, suggesting that planning is not easily adopted or abandoned. In addition it found that business planning does not guarantee productivity: across nine years, firms with and without plans showed similar levels of productivity, and in some years, non-planners outperformed planners. Although treatment effects modelling showed that planning could improve productivity by around 9.5 per cent, the study also showed that successful non-planners also exist. The research identified a distinct group of older, export-orientated, highly productive firms operating without formal plans, suggesting that other factors such as exporting, and technology use were more salient factors in productivity than business planning.

What does this mean for business support design and delivery? One conclusion is that planning support should be tailored to the firm context. Advisors should assess a firm's size, age, and strategic orientation before recommending formal planning. Formal planning might be more beneficial for some types of firms, for example micro and small firms with growth ambitions, but not necessarily for exploring businesses with their own established routines and practices. Related to this, planning should be seen as a developmental tool rather than a rigid compliance requirement. In addition, advisors need to recognise a 'non-planning' approach could be a legitimate strategy and not assume it always indicates poor management. Many programmes often end in the production of an action plan of some type, but it would be beneficial to have a wider perception of what successful completion of a programme might look like that might include improved decision-making or strategic clarity for example, not necessarily formalised in a plan. In short, business support approaches need to be informed by real world variations in firm behaviour, rather than idealised models of management.

22 Small Business Planning is Sticky but neither a Universal Practice nor a Guaranteed Path to Success. - Enterprise Research Centre

3.3 Local social capital

In Chapter 2 we summarised our latest research on the geography of high-growth firms, and the important role played by local entrepreneurial ecosystems. We have also explored another dimension of how local settings shape entrepreneurship through our work on local social capital, published in 2025.[23]

This research examined how local social capital, i.e., trust, civic engagement, and community connectedness - influences the creation of new businesses across the UK. Using Global Entrepreneurship Monitor data (2018–2021) matched with highly localised measures from the Community Wellbeing Index, the study analysed how social capital affects different types of entrepreneurship, including during the Covid-19 pandemic. Key insights from this study include:

- Strong community networks help the most economically vulnerable entrepreneurs.
- Necessity-driven entrepreneurs are significantly more likely to start a business in areas with high social capital. Community support mitigates risk for individuals who lack alternatives in the labour market.
- Local social capital underpins micro and small-scale business formation.
- Entrepreneurs with modest growth ambitions - often sole traders or locally focused service providers - rely heavily on trust-based exchanges and informal support. These ventures create local employment and are core to place-based economies.
- High-growth and outward-facing businesses depend less on local conditions.
- Export-oriented and innovative firms draw more on wider market access, formal support, and external networks, highlighting differentiated needs within entrepreneurial ecosystems.
- During crises (e.g. during the pandemic), social capital acts as economic resilience.
- The relationship between local social capital and business start-up activity strengthened during the Covid-19 pandemic. Communities with stronger social ties were better able to sustain entrepreneurial activity despite systemic disruption.

The research suggests the following policy implications:

- **Investing in social infrastructure should be seen as a pillar of economic development**: Policies supporting civic spaces, volunteering, and local organisations can boost business creation among groups with fewer resources, and enhance economic resilience.
- **Programmes should be tailored to entrepreneurial diversity**: Necessity entrepreneurs and micro enterprises benefit most from initiatives that strengthen community networks, trust and local informal support, rather than purely financial incentives.
- **Embed social capital into place-based policy frameworks**: Levelling Up, local industrial strategies, and economic recovery plans should recognise social capital as a core asset of entrepreneurial ecosystems - particularly in left-behind and rural areas.
- **Crisis-preparedness should include mobilisation of community networks**: In future shocks, local ecosystems that activate community-level support can protect self-employment and business continuity more effectively than top-down responses alone.

The bottom line of this research is that social capital enables entrepreneurial participation among under-represented and resource-constrained groups and strengthens local economic resilience in times of uncertainty. Supporting community connectedness is therefore an integral - not peripheral - component of policies aiming to develop diverse, thriving and sustainable regional economies.

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23 The impact of local social capital on different types of entrepreneurship - Enterprise Research Centre

3.4 Summary

Entrepreneurial ecosystems involve a wide range of economic, social, institutional, political and financial organisations and conditions, and they have a key influence on the decision to start and grow a business. Ecosystems change and evolve over time in line with the priorities of governments and broader socio-economic and cultural change.

The GEM Survey has provided strong evidence highlighting that several elements of the small business ecosystem in the UK are in need of improvement. The UK compares poorly with many similar economies, with expert assessments of conditions slipping since the pandemic. Access to finance in particular remains a major, stubborn problem in the UK, and government support and policies for entrepreneurship remain poorly rated.

ERC research has demonstrated the positive effects business support can have on small business creation, survival and growth, particularly highlighting the value of more tailored support that properly reflects the realities of entrepreneurs, and the importance of a vibrant local context. However, business support and advice in the UK remains fragmented, underfunded and insecure. The Government's plan for SMEs was published in July 2025 and acknowledged these issues. It stated an intention to address these weaknesses to ensure the UK becomes the best place to not only start a business but also to scale. Implementing this plan swiftly will be essential in 2026.

4. Innovation

Innovation, broadly defined as the introduction of new products, services, and ways of doing business, has been a central research theme at the ERC. In 2025 we continued to build the evidence base on small businesses and innovation, providing further useful evidence for policymakers.

4.1 Trends in innovation activity

Previous ERC research has deepened understanding about the trends and patterns in innovation activity in the UK and how this compares internationally. Our Innovation Benchmarks reports have also drawn attention to the UK's varied innovation geography,[24] and our analysis has shown how innovation activity in firms is sensitive to wider economic conditions and uncertainty.[25]

The evidence from official data sources such as the UK Innovation Survey (UKIS) has shown in particular that the Covid-19 pandemic had a marked impact on innovation activity. The most recent results of the UKIS cover the years 2020-2022,[26] and show that 36 per cent of UK businesses were classed as innovation active. This was a sharp decrease from 45 per cent in the pre-pandemic 2018-2020 period. The UKIS findings also show marked size differences in innovation activity, with 50 per cent of large businesses classed as innovation active in 2020-2022 compared to just 36 per cent of SMEs.

As we noted in Chapter 1, the findings from the most recent Longitudinal Small Business Survey panel report also show a decline in innovation activity amongst SMEs specifically since the pandemic. The proportion of firms reporting either product or service innovation was 30.4 per cent in 2021, and this has decreased year-on-year since, falling to 24.1 per cent in 2024.[27]

In 2020, the ERC and the Innovation Caucus (IRC) were commissioned by Innovate UK to undertake a large-scale longitudinal survey assessing the impact of Covid-19 for current and future innovation behaviour - the Innovation State of the Nation Survey (ISNS). Several waves of this survey (covering approximately 2,000 innovative firms annually), have now been undertaken, and the most recent was published in 2025.[28]

Consistent with the findings of other surveys, earlier waves of the ISNS carried out in 2020 and 2021 suggested that the Covid-19 pandemic had a significant short-term negative impact on R&D and innovation amongst respondent firms. The 2022 survey found that firms were continuing to experience significant disruption, which persisted in 2023 and 2024. The latest report brings the story up to date, based on data collected between March and July 2025, giving us a more recent picture of innovation trends than we can get from other key surveys.

In the ISNS survey, an 'innovation active' firm is defined as one that is engaged in R&D, product, service, process, or organisational innovation, or one that has either been actively engaged in, or abandoned innovation in the last three years. The survey also distinguishes between 'frontier' and 'non-frontier' firms, with frontier firms defined as those leading their sectors in terms of technology, and non-frontier firms defined as followers.

In 2025, 60 per cent of the businesses surveyed reported making product or service changes over the last year. This represents an increase from 56 per cent in 2024, returning close to the level found in 2023.

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24 Benchmarking Local Innovation: The Innovation Geography of England 2016 -18 - Enterprise Research Centre
25 Innovation or Imitation (Insights No.4) - Enterprise Research Centre
26 United Kingdom innovation survey 2023: report - GOV.UK
27 Small Business Survey 2024: panel report - GOV.UK
28 The Innovation State of the Nation 2025 Survey Report - Innovation Research Caucus

Over time, the survey series has found that the likelihood of innovation consistently rises with firm size. Interestingly, the latest survey findings show that this innovation gap between smaller and larger firms actually narrowed from 2024 to 2025, as innovation rates rose more in smaller firms. There was a 5 per cent and 4 per cent increase in the rate of innovation activity among micro and small businesses respectively, with only a 1 per cent increase in innovation activity in large firms.

Looking at the novelty of innovation, there was also an increase in 'new-to-the-market' or novel innovations for both product and service innovation in 2025. The number of firms reporting product innovations that were new-to-the-market increased notably from 48 per cent in 2024 to around 58 per cent in 2025. Similarly, the share of firms reporting service innovations that were new-to-the-market rose from 33 per cent to approximately 42 per cent over the same period.

The ISNS also explores innovation investment activities. Looking specifically at R&D investment, overall, 39 per cent of firms reported engaging in some form of R&D activity in 2025, which is the same as found in 2024. The proportion of R&D-active firms was higher among large (75% in 2025) and frontier firms (65% in 2025).

Looking at investment in training activity to support product or service innovation, the survey found 32 per cent of firms invested in specific job-related skills training, 24 per cent invested in compliance training on legal and regulatory matters, 23 per cent invested in personal development training, and 23 per cent in training for industry qualifications.

The ISNS also asks firms about their approach to funding innovation activity. The findings show that internal funding is the most common approach to funding innovation. However, interestingly, firms reported an increased use of external finance for their innovation activities in 2025. The use of grants, government loans, bank loans, and equity finance rose by around 3, 6, 7 and 8 per cent respectively, with the rise in the use of external funding sources being particularly notable amongst micro businesses.

4.2 Innovation drivers and barriers

Previous ERC research has provided many insights into what drives and inhibits innovation in small firms, identifying a wide range of factors involved, both **internal** - such as the use of R&D and intellectual property protection, management and leadership, business orientation, workforce diversity and other firm characteristics such as family ownership, and **external** - such as use of support/advice, collaboration and 'openness', or the purposive links formed between firms and their collaborators and other ecosystem factors.

The ISNS provides insights into some of these drivers, and the findings indicate some encouraging trends. For example, the survey explores external advice seeking activity amongst respondent firms. The proportion of firms seeking advice rose from 35 per cent in 2024 to 38 per cent in 2025. Whilst the most commonly sought support was related to business operations and growth, 2025 saw a rising trend in firms seeking assistance with digital technologies (increasing by 9%), product/service changes (increasing by 8%), and net zero initiatives (increasing by almost 6%). Notably, the proportion of small firms seeking support for digital technologies increased by around 14 per cent. There was also a 15 per cent increase amongst medium-sized firms seeking support related to net zero goals.

The ISNS also explores the extent to which firms collaborate with other organisations as part of their innovation practices. Overall, the proportion of firms collaborating with external partners rose to 42 per cent in 2025 (from 39% in 2024). This overall trend conceals a slight decline in supply chain collaboration (e.g. with suppliers, customers, and other businesses), but reflects an increase in partnerships with other stakeholders, including technology hubs (up by almost 9%), consultants (up by around 6%), and universities (up by around 5%).

Innovation clusters

Clusters - spatially concentrated groups of firms, research/education institutions, skills and support organisations in related industries - have long been recognised as playing a key role in driving innovation. In 2025 we contributed to the development of a tool - GeoFirm All-island - mapping innovation clusters in Ireland and Northern Ireland.[29] Industry clusters have been a key focus of policy discussions in Ireland and Northern Ireland since the 1990s. Early policy discussions date back to the Culliton Report (1992),[30] which recommended developing clusters of related industries by leveraging existing sectoral strengths.

In this tradition, GeoFirm All-island is a publicly accessible web-based tool that provides a new, all-island perspective on firms' locations in different sectors across Northern Ireland and the Republic of Ireland. Building on recent developments in machine learning, the tool extends existing capabilities for mapping the spatial distribution of industries, providing an all-island and sectoral perspective on potential development and collaboration possibilities.

GeoFirm All-island expands on work on 'innovation cluster' mapping for the UK supported in 2023 by the Department for Science, Innovation and Technology (DSIT) and utilises proprietary technology developed by DataCity Limited.[31] GeoFirm All-island employs geo-coded, firm-level data for Ireland and Northern Ireland to identify spatial clusters of specific industrial activities across the island.

The emphasis in GeoFirm All-island is on the spatial concentration of firms. These concentrations may or may not be a 'cluster' in some uses of the term, such as collaboration between firms or the use of shared services. Spatial concentration is potentially important, however, as a necessary condition for clustering, and where spatial concentrations of firms are not currently working as a cluster, there is the potential for policy intervention to support cluster development. Sectors are identified not by traditional standard industrial classifications, which are often unrelated to emerging sectors, but by proprietary Real-Time Industrial Classifications (RTICs). RTICs rely on algorithmic allocation of firms to industries such as immersive technologies, clean tech, or MedTech, using web-scraped data and machine learning. GeoFirm All-island allows users to select specific RTICs (sectors) and profile the spatial distribution of firms within the RTIC across Ireland and Northern Ireland. This identifies the concentrations of economic activity and provides the basis for coordinated policy development to support all-island development. It also provides mapping data and aggregated information on the employment, turnover and number of firms in each spatial concentration ('cluster').

The tool has a number of potential use cases or applications in research, policy and commercial applications: Research users are quickly be able to see the extent of existing industry concentrations; Policy officials will have an interest when seeking to build cross-border clusters. GeoFirm All-island can assist in identifying existing spatial concentrations of activity that might form the basis for all-Ireland cluster development. Commercial applications may include property development companies using cluster mapping to spot investment opportunities. Commercial sellers of business services/finance might also view cluster information as a means to grow their business in target sectors.

29 Publication expected in early 2026
30 Industrial Policy Review Group Report: Statements. – Dáil Éireann (26th Dáil) – Friday, 27 Mar 1992 – Houses of the Oireachtas
31 Identifying and describing UK innovation clusters

Turning to the evidence on barriers to innovation, the ISNS again provides useful new information. The findings show that despite the rise in innovation activities in 2025, a larger share of innovating firms reported facing obstacles. About 49 per cent of these firms reported barriers in 2025, an increase from 44 per cent in 2024. Notably, there was a 10 per cent rise in reported barriers amongst micro businesses, whilst large firms saw an 8 per cent reduction. This indicates a growing gap in terms of innovation barriers between large and micro businesses. The most common barrier reported by innovating firms was a lack of finance.

Finally, in terms of future investment in innovation – 51 per cent of businesses said that they intended to invest in R&D in the next 12 months, and this was up from 47 per cent in 2024. This increase in investment intention was observed among micro, small, and medium-sized businesses. However, large firms showed a notable decline, with investment intention dropping from 85 per cent in 2024 to 71 per cent in 2025. Investment intention was especially high among firms in the 'other services' sector.

4.3 Innovation and performance

Previous ERC research has provided evidence that businesses that receive public support for innovation tend to innovate more, and that this can lead to improvements in performance. In 2017, for example, the ERC published a ground-breaking assessment of the impacts of public research grants given by UK Research Councils (including Innovate UK) on firm performance. The study found that firms who participated in research projects funded by UK Research Councils grew their turnover and employment faster in the years after the projects compared to similar firms which did not receive support.[32] Other ERC research has found similar results, for example finding a strong positive effect on the employment and turnover growth for firms engaging with Catapult centres.[33]

However, in general, evaluations of innovation policy impacts are often short-term and narrowly defined, focussing on only a few innovation metrics. In a new report published in 2025 we developed a 'Follow-the-Grant' (FTG) methodology to track the long-term impacts of a group of 16 Innovate UK collaborative R&D grants over 3-8 years after they were completed.[34] By tracking down project participants, often in new job roles, we followed the progress of the knowledge generated in each project, and identified technological and commercial outcomes.

The projects we followed generated a diverse range of direct and indirect impacts. They demonstrated that Innovate UK (IUK) grants could directly promote ongoing collaboration between partners, lead to follow-up R&D projects, or both, when project partners engage in the subsequent R&D work. We also found that impacts occurred through complex pathways (Figure 11) which often depended on contextual factors that enabled or inhibited impacts (shown in the grey boxes).

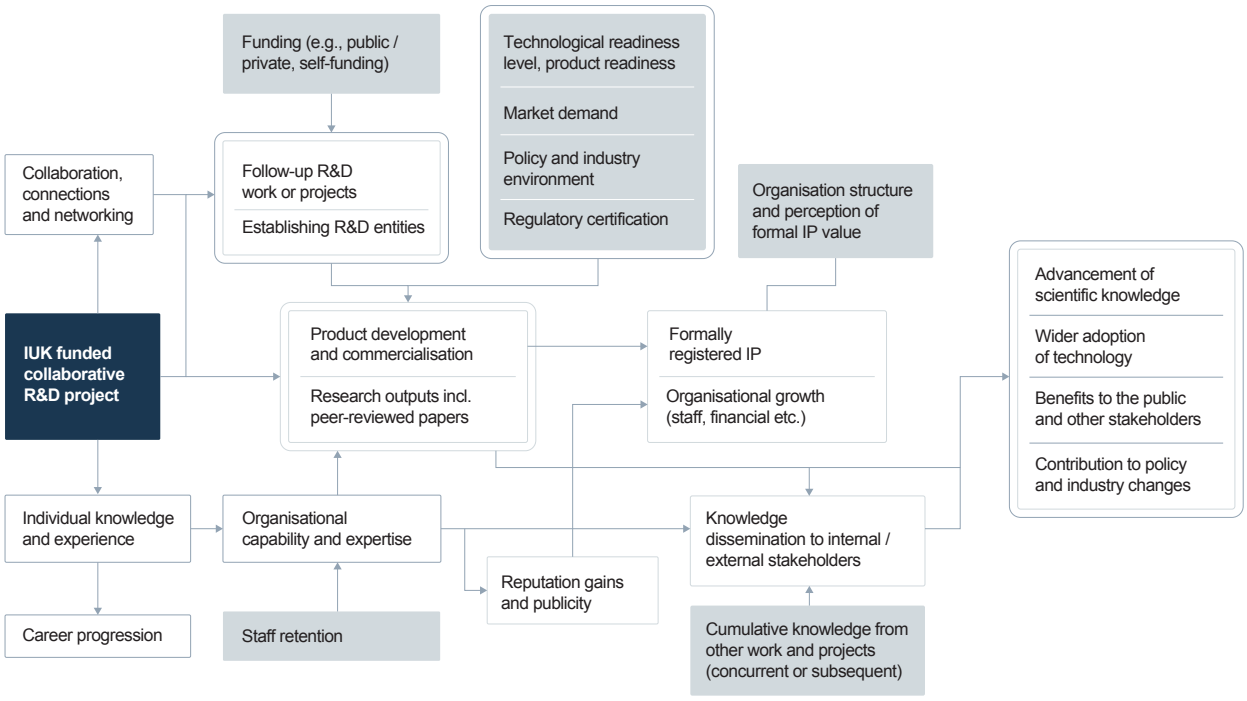
It is notable here that even where IUK projects were not entirely successful in achieving their intended outcomes, they still generated impacts, particularly in terms of knowledge and experience gains for individuals and their organisations, as well as additional collaborations. However, 'successful' projects seem to have led to more significant and lasting impacts, including through mechanisms such as organisational or business growth.

32 Assessing the business performance effects of receiving publicly-funded science, research and innovation grants - Enterprise Research Centre
33 Evaluating the medium-term business performance effects of engaging with Catapults: A propensity score matching - difference-in-difference study - Enterprise Research Centre
34 ERC-Report-Identifying-the-longer-term-impacts-of-Innovate-UK-collaborative-RD-grants-final.pdf

Long-term impacts mostly seem to have materialised around year three after the project finished, with most impacts directly caused by the grant occurring after one to two years. Few new impacts appeared after year five. This suggests the potential for a tiered approach to the longer-term assessment of the impacts of major projects through research and evaluations. Reaching out to the individuals involved three years later would provide an impact update. These contacts could then be revisited five years later, and due to the follow-up, they are more likely to be traceable and participate again.

The FTG approach also identified a range of direct and indirect impact mechanisms. For example, several interviewees highlighted that networking and collaboration opportunities were one of the most valuable outcomes from IUK grants for them. A few interviewees also highlighted that the publicity and reputational gains from the project contributed to further R&D and professional opportunities for them and led to sustaining some impacts from the project. One recommendation from the study is that IUK may play a role in showcasing ongoing and completed projects to help maximise knowledge dissemination and commercial impact.

Figure 11: Follow the grant - impact pathways



4.4 Digital adoption

In the past few years, ERC research has provided insights into the adoption of digital technologies in small businesses, recognising its importance to productivity and sustainable growth, and exploring the drivers and barriers to adoption.

In 2025, digital adoption and the growth of Artificial Intelligence (AI) in particular received considerable attention in the business community and wider media. The growth of AI presents opportunities and challenges for small businesses. It is increasingly presented as a potentially transformative force for many, improving efficiency, decision-making and customer experiences, and unlocking new opportunities specifically for smaller firms.

AI was selected as the special topic in the most recent Global Entrepreneurship Monitor report. The results for the UK showed that growth-oriented entrepreneurs, were substantially more optimistic about the transformative benefits of AI across multiple business areas, contrasting with the more cautious outlook of the general population. The evidence shows a strong association between entrepreneurial ambition and confidence in AI's potential to drive innovation, productivity, and growth.

The ISNS 2025 questionnaire also featured an additional question on the adoption of advanced digital technologies including AI, big data analytics, cloud computing, 3D printing, the Internet of Things (IoT), and robotics. The findings showed that artificial intelligence (AI) had experienced notably high adoption rates compared to the other technologies, with large firms and frontier firms amongst the highest adopters. 45 per cent of businesses said they had adopted AI, with the rate of adoption increasing with firm size: 72 per cent of large businesses had adopted AI compared to 41 per cent of the wider population of businesses. Notably, the adoption rate was higher among frontier firms and those in business services. In terms of timing, the majority of firms began using AI within the past year.

By comparison, 26 per cent of UK businesses said they had adopted big data analytics in 2025, with adoption rates increasing with firm size. For instance, 61 per cent of large businesses in the UK adopted big data analytics in comparison to 22 per cent of micro businesses. There are also sectoral differences and there is notably higher adoption in finance.

A new paper published in 2025 based on analysis of the LSBS (2018-2022) examined the impact of simultaneous engagement in research and development (R&D) and exporting (or 'dual engagement') on the adoption of advanced and emerging technologies (AET) in SMEs.[35] The research set out to explore whether dually engaged firms are more likely to adopt AET compared to other firms, whether either R&D or exporting contributes more strongly to adoption, and whether dual engagement delivers a synergistic effect beyond the sum of its parts.

The research found SMEs that dual engaged SMEs were 11 percentage points more likely to adopt AET than firms engaged in neither. R&D activity emerged as the main driver and the strongest predictor of AET adoption. Exporting plays a secondary role, adding modest gains but not generating a synergistic effect when combined with R&D.

Looking over time, the strongest effects appeared in 2022, which coincided with the rapid diffusion of generative AI, perhaps indicating that dually engaged firms are early adopters of frontier technologies. Effects were largest among high-tech manufacturers, ICT firms, and knowledge-intensive services firms, and the smallest micro-businesses (2–3 employees) and larger SMEs (60–249 employees) saw the greatest gains. Firms that had used external strategic advice or expressed strong growth ambitions benefited most.

In terms of the lessons for policy, the study points to the value of prioritising R&D support amongst SMEs, since it is R&D capability that underpins firms' absorptive capacity. Expanding access to R&D support mechanisms is likely to be the most effective lever for technology adoption. While exporting complements R&D, an automatic synergy should not be assumed. As the research found that firms benefiting most from dual engagement often seek external advice, expanding access to advice and support could also amplify technology uptake. Tailored support would be valuable especially for micro-businesses.

Another paper published in 2025 also based on LSBS analysis (2022–2023) provided new empirical insights into how the adoption of six specific technologies (artificial intelligence, robotics, and automation (AIRA), Cloud Computing, business intelligence and analytics (BI), computer-aided design (CAD), Virtual/Augmented reality (VR/AR), and the Internet of Things (IoT)), influences the productivity of SMEs.[36]

35 The impact of R&D and exporting on advanced technology adoption among UK SMEs - Enterprise Research Centre
36 Technology Adoption and Productivity: Evidence from UK SMEs - Enterprise Research Centre

Overall, the analysis confirmed that spatial and sectoral disparities in the adoption of digital technologies persists. Firms in the business services sector were leading in adoption, whilst other industry sectors, such as retail, transport, and accommodation, lagged behind. Looking at specific technologies, Business Intelligence and Analytics (BI) and Cloud Computing delivered the greatest productivity improvements, while adopting Computer-Aided Design (CAD) software results in moderate, but consistent gains. Artificial Intelligence, Robotics, and Automation (AIRA) were found to have only marginally significant effects. The adoption of Internet of Things (IoT) and Virtual/Augmented Reality (VR/AR), did not demonstrate significant productivity benefits.

The analysis also found that bundling multiple technologies does not routinely lead to higher productivity, with some combinations, such as VR/AR with AIRA or CAD, even reducing productivity returns, which could be related to the complexity of integration. Looking at the effects in different types of SMEs (women-led, family-owned, and minority-ethnic-led), the results did not indicate productivity improvements, suggesting that other barriers may limit the potential benefits of technology adoption in these firms. By contrast, larger, older, profitable SMEs with growth ambitions had the greatest productivity gains.

The results suggest that the strategic and selective adoption of technology by SMEs is most likely to deliver greater productivity benefits. This points to the value of targeted policy interventions that could prioritise support for higher-impact technologies, or focus on providing business support with the effective integration of new technologies into business operations. Focused training may also be valuable, especially for underserved SMEs, including women-led, family-owned, and minority-ethnic-led firms.

It is also important to note that although the application of digital technologies is associated with higher growth and productivity, there are also increased risks for firms. Cyberspace has brought about new digital threats, as the key data and systems on which businesses rely can become compromised or damaged in ways that are hard to detect or defend against. Government research shows that small businesses are particularly vulnerable, with 1 in 2 small businesses likely to experience a cyber breach or attack.[37]

Securing digital infrastructure in smaller firms is essential in order for them to be able to withstand and recover from cyber breaches or attacks. But resource constraints in smaller firms mean that ensuring business continuity following a cyber breach or attack is more challenging.[38] In a previous evidence review we explored the evidence on the factors related to cyber security incidents and the key cyber security challenges faced by smaller firms.[39] We extended this research in 2025 exploring in more depth the evidence on cybersecurity vulnerabilities and resilience in small firms.[40]

The work has explored how the technical, organisational and human practices within firms influence the probability of cyber security breach or attack. It has also examined the outcomes and impacts of cyber security incidents, as well as how the technical, organisational and human practices within a firm influence the time taken to restore business operations back to normal after attack.

To answer these questions, we used data from five waves of the UK Cyber Security Breaches Survey (CSBS) (DSIT/Home Office 2021 to 2025), commissioned by the Department for Science, Innovation and Technology (DSIT) in partnership with the Home Office as part of the Government's National Cyber Security Programme.[41] Each wave of data includes approximately 1,000 to 2,000 businesses, and explores firms' attitudes to cyber security; approaches to cyber security (including investment and processes); incidences, outcomes and impacts of cyber security breaches or attacks; and how breaches and attacks are dealt with by organisations. In addition, the survey data is weighted to be statistically representative of the UK business population by size and sector.

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38 A survey on the cyber security of Small-to-Medium businesses: Challenges, research focus and recommendations - Murdoch University
39 What do we know about cyber security in small firms? - Enterprise Research Centre
40 Publication to follow in 2026
41 Cyber security breaches survey 2025 - GOV.UK

Some 90 per cent of firms in our pooled survey dataset were micro-firms and SMEs, with 76 per cent being micro and small firms. 47 per cent of firms in the sample had experienced a cyber security breach or attack during the previous twelve months, with the most common breaches or attacks being 'staff receiving fraudulent emails or being directed to fraudulent websites' (40.7 per cent of firms) and 'people impersonating the organisation in emails or online' (21.4 per cent of firms).

Using the data on micro-firms and SMEs, we estimated a two-stage model. First, we estimated a model to examine the relationship between firms' cyber security behaviours/practices – technical, organisational and human[42] – and the probability that they will be a victim of a cyber security breach or attack. Second, for those firms that experienced a cyber security breach or attack, we estimated a model to examine the relationship between the outcomes[43] and impacts[44] of the cyber security breaches or attacks, firms' technical, organisational and human cyber security behaviours/practices, and the probability that firms restored business operations immediately following a cyber security breach or attack. Both models controlled for firm size, time and sector.

First-stage model results suggest that up-to-date malware protection, investing in threat intelligence, and having a segregated guest wi-fi network are the technical behaviours/practices that have a statistically significant effect on the probability of cyber security breach or attack in smaller firms. Board members with responsibility for cyber security, formally reviewing the potential cyber security risks presented by immediate suppliers, formally reviewing the potential cyber security risks presented by the wider supply chain, and having an outsourced provider that manages cyber security are the organisational behaviours/practices that have a statistically significant effect on the probability of cyber security breach or attack in smaller firms. Carrying out cyber security training or holding cyber awareness sessions are the human behaviours/practices that have a statistically significant effect. However, most of the results here are counter-intuitive, as the firm behaviours/practices, although statistically significant, are associated with an increase in the probability of cyber security breach or attack. There are two potential explanations for these results. First, businesses more likely to suffer cyber security breaches or attacks may invest more resources in cyber security to mitigate risks, and second, investing more resources in cyber security may lead to higher breach detection, and therefore an increased cyber security breach or attack victimisation.

Second-stage model results suggest that a temporary loss of access to files or networks, money being stolen, and a website or online services being taken down or made slower are the outcomes that have a statistically significant negative effect on the probability that a firm will make an immediate recovery following a cyber security breach or attack. Stopping staff from carrying out their day-to-day work, requiring additional staff time to deal with a breach or attack, requiring new measures to protect against future breaches or attacks, and preventing the provision of goods and services to customers are the impacts that have a statistically significant negative effect on the probability that a firm will make an immediate recovery. In addition, having a business continuity plan that covers cyber security is an organisational behaviour/practice that has a statistically significant positive effect on the probability that a firm will make an immediate recovery, and backing up data via a means other than via a cloud service is a technical behaviour/practice that has a statistically significant positive effect on the probability that a firm will make an immediate recovery following a cyber security attack.

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42 Technical behaviours/practices include: having up-to-date malware protection; applying all software security updates; investing in threat intelligence; having a segregated guest Wi-Fi network; and having a virtual private network (VPN) for staff connecting remotely. Organisational behaviours/practices include: having board members with responsibility for cyber security; carrying out work to formally review the potential cyber security risks presented by immediate suppliers; carrying out work to formally review the potential cyber security risks presented by the wider supply chain; having an outsourced provider that managed cyber security. Human behaviours/practices include: having a password policy that ensures users set strong passwords; carrying out cyber security training or holding awareness raising sessions.

43 Outcomes include: software or systems were corrupted or damaged; permanent loss of files; temporary loss of access to files or network; lost or stolen assets, trade secrets or intellectual property; money was stolen; website or online services were taken down or made slower; lost access to third-party services that firm relied upon; money was paid to the attackers; physical devices or equipment were damaged or corrupted; compromised accounts or systems were used for illicit purposes.

44 Impacts include: stopped staff from carrying out their day-to-day work; additional staff time required to deal with the breach or attack; any other repair or recovery costs; new measures needed to prevent or protect against future breaches or attacks; reputational damage; prevented provision of goods and services to customers; complaints from customers.

In summary, our first-stage results show that certain technical, organisational and human behaviours/ practices are important in determining the probability of cyber security breach or attack in smaller firms. Furthermore, second-stage results indicate that some outcomes and impacts are important in determining small-firm resilience in the face of cyber security breaches or attacks, i.e., the probability that a small firm will make an immediate recovery following an attack. In addition, some technical and organisational behaviours/ practices are also important in determining small-firm resilience following a cyber security attack.

4.5 Summary

It is widely acknowledged that innovation is important for business growth and productivity. However, recent evidence shows some worrying trends in terms of declining innovation activity in UK, particularly in smaller firms and during/post-pandemic. As we have flagged in previous reports, this is a major policy concern, particularly given the rapid pace of technological change, and the increasingly competitive global business environment.

Findings from the ISNS – focusing on firms receiving support from Innovate UK - carried out in 2025, however, show some potentially encouraging results, including a narrowing of the innovation gap between smaller and larger firms, and high AI adoption rates across businesses more generally. However, the findings also show that larger firms are much more likely to be using AI than smaller firms. We know that the introduction of new digital technologies has the potential to address the productivity gap between large and small businesses, so this is worthy of policy attention. A larger share of innovating firms also reported facing barriers to innovation, with a 10 per cent rise here amongst micro-businesses a potential cause for concern.

Given that we know from previous research that publicly funded support can be effective in improving innovation activity and firm performance, looking ahead it remains important that policymakers pay attention to the distinct challenges faced by small and micro-businesses, designing innovation support programmes accordingly. This should include support with the safe and secure adoption of digital technologies.

5. Workplace Mental Health and Wellbeing

Workplace mental health and wellbeing has rapidly risen up the policy agenda in recent years, and is increasingly being recognised as playing an important part in the UK's productivity problem. Mental health at work has been a theme of interest for the ERC since 2019, when we began working on a baseline employer survey for the Midlands Mental Health and Productivity Pilot Programme (MHPP).[45] In 2025 we completed a major study funded by the Economic and Social Research Council (ESRC) on workplace mental health and productivity, bringing together insights from several different strands of research activity.[46]

5.1 Workplace mental health and business performance

Recent years have seen rising awareness of the considerable economic cost that poor worker mental health has for employers. These costs derive from different mechanisms and include:

- Absenteeism - the time workers spend off work due to mental ill-health;
- Presenteeism - the costs associated with workers being at work but not performing their work as expected because of mental ill-health, or working long hours;
- Staff turnover - the costs associated with replacing workers who leave employment due to mental ill-health.

According to some of the most recent ONS data, 16.4 million working days are lost each year in the UK due to mental health-related sickness absence - an average of 21.1 days lost per case. Nearly half of all long-standing cases of work-related ill health in 2023/24 were due to mental health.[47] The Covid-19 pandemic provoked a sustained rise in mental health issues in the UK and across the world.[48] ONS data show that in the years prior to the pandemic, the rate of self-reported work-related stress, depression or anxiety in the UK was already increasing, but the rate at the time of writing is now higher than the 2018/19 pre-pandemic level.

Back in 2007, a report by the Sainsbury Centre for Mental Health estimated that the total cost to UK employers of workplace mental health problems was around £26bn every year.[49] This figure was revised upwards in a 2020 study by Deloitte to between £42bn and £45bn,[50] and again to £56bn in 2021.[51] The 2021 estimate includes the cost of mental health-related absence, which was put at around £6bn, as well as presenteeism (when employees are at work but underperforming due to ill-health) at a substantially larger figure of around £28bn, and the cost of employee turnover at around £22bn. The most recent (and post-pandemic) estimate from Deloitte in 2024 put the total cost to employers at a slightly lower level than in the pandemic years, but still at an estimated £51bn/year.[52]

45 Midlands Engine Mental Health and Productivity Pilot - Business Services - University of Derby
46 ESRC Mental health and well-being practices, outcomes and productivity project - Enterprise Research Centre
47 Working days lost in Great Britain - HSE
48 Health at a Glance 2023 | OECD
49 Sainsbury Centre for Mental Health, 2007. Mental health at work: Developing the business case. Policy Paper No. 8
50 Hampson, E., & Jacob, A. (2020). Mental health and employers: refreshing the case for investment. Deloitte.
51 Deloitte. (2022). Mental health and employers: the case for investments pandemic and beyond. deloitte-uk-mental-health-report-2022.pdf
52 Poor mental health costs UK employers £51 billion a year for employees | Deloitte UK

Despite the growth in workplace mental health issues in recent years and the cost this has for employers, relatively little is known about the causal mechanisms by which poor employee mental health impacts on productivity, or about the effectiveness and outcomes of the various mental health and wellbeing practices used in the workplace. We aimed to address these vital research gaps in our research. Our study focused mainly on exploring the perceptions, experiences and behaviours of businesses, a dimension that has tended to be neglected in previous research. A key focus was on whether there are actions employers can take that can help reduce the personal, business and wider economic costs of mental ill health in the workplace, that could also have a positive impact on productivity.

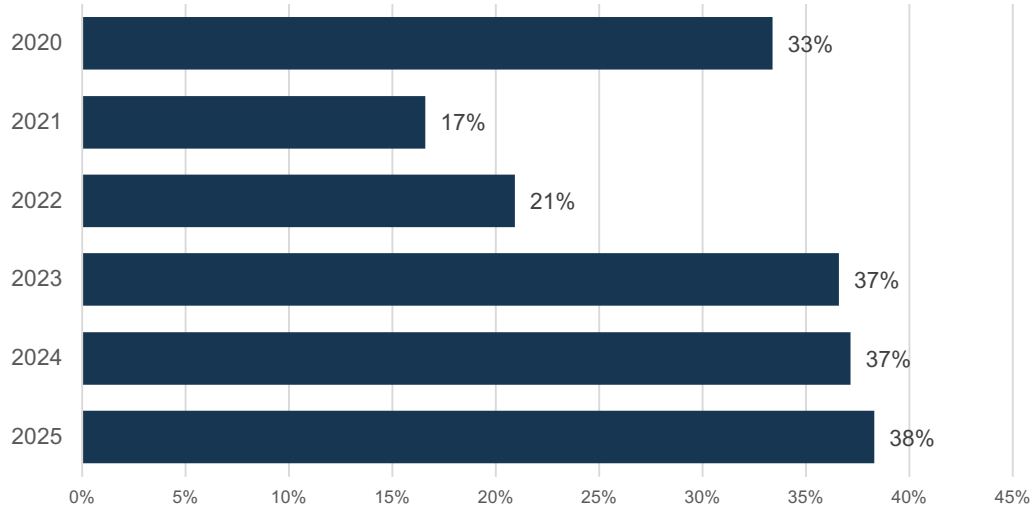
The study involved us undertaking a multi-method, longitudinal research programme on the theme of workplace mental health and productivity, undertaken in collaboration with researchers based at the University of Nottingham, Queen's University Belfast, Lancaster University and University College Cork. This work originally started back before the Covid-19 pandemic, with an initial survey exploring attitudes and practices around mental health and wellbeing in around 1,900 private sector businesses - all based in the Midlands region - carried out in early 2020.[53] The survey was subsequently repeated and data collected from firms in each of the years since (2021, 2022, 2023, 2024 and 2025), alongside new employer surveys carried out in Sweden and Ireland, an employee survey, case studies and additional qualitative work. We pulled the findings from all the elements of the research into a final report published in October 2025.[54]

5.2 The extent of workplace mental health issues

Our research found some revealing patterns about the extent of workplace mental health issues and the ways in which firms experience and respond to them. Our UK survey results showed that workplace mental health and wellbeing challenges, including absenteeism and presenteeism, are widely experienced by employers, that they may be increasing.

In particular, presenteeism was experienced by a substantial proportion of the businesses we surveyed (37% in 2025). According to our longitudinal employer survey findings, employer-reported presenteeism is currently at the highest level since before the pandemic (Figure 12).

Figure 12: Proportion of firms reporting some level of presenteeism, all firms, 2020 to 2025



Source: ERC Midlands Mental Health and Productivity Survey Series
Base: 1899 firms in 2020, 1551 in 2021, 1904 in 2022, 1902 in 2023, 1901 in 2024, 1226 in 2025

53 Employee well-being, mental health and productivity in Midlands firms: The employer perspective - Enterprise Research Centre
54 Mental health and wellbeing practices, outcomes and productivity: Final project report - Enterprise Research Centre

In addition, mental health-related sickness absence was reported by 25 per cent of businesses we surveyed in 2025. During the whole study period (2020-2025), there was also a notable rise in the proportion of employers reporting that they had employees taking multiple occasions of sickness absence. The proportion of firms reporting this repeated mental health absence jumped from 40 to 47 per cent in 2022-2023.

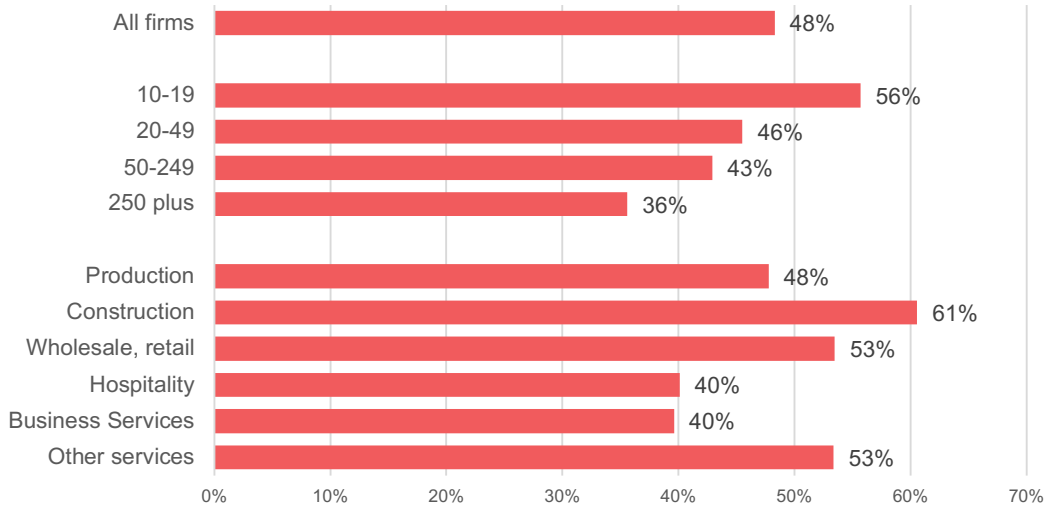
5.3 The business impacts of mental health issues

Our study also demonstrated clearly that mental health issues have business impacts. In 2025, just under half of those firms in our employer survey reporting they experienced mental health absence amongst their workforce said that it impacted negatively on their operations.

The findings here showed considerable variation depending on business size and sector, as illustrated in Figure 13, which presents the findings from the 2025 survey. A higher proportion of smaller businesses, and firms in the construction sector reported business impacts from mental health related absence.

The findings from our qualitative research also showed that workforce mental health issues, if not properly managed, can have detrimental impacts on teamworking. For example, the failure to disclose a mental health issue to managers and co-workers can provoke anxiety and tensions which can impact team trust and cohesion. The qualitative research we conducted with managers also showed that line managers are particularly important in managing mental health issues day-to-day within the workplace, but many feel unsupported within their organisations and would like access to more training.

Figure 13: Proportion of firms reporting that mental health absence impacts on their business, by size and sector, 2025



Source: ERC Midlands Mental Health and Productivity Survey Series
Base: 309 firms

5.4 Adoption of mental health initiatives

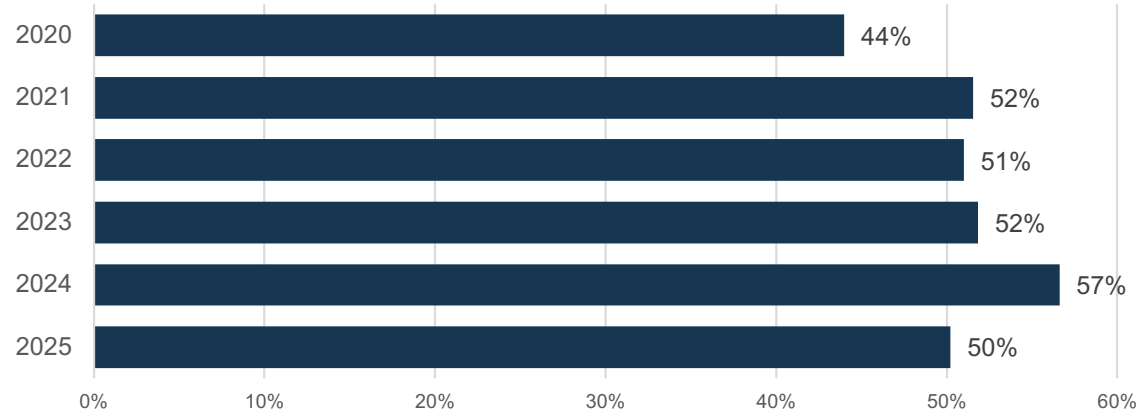
The survey findings showed that most leaders felt an obligation to manage mental health issues amongst their employees, with 75 per cent of businesses in 2025 stating they disagreed with the statement that 'mental health is a personal issue that should not be addressed in the workplace.' However, this sentiment seems to be declining over time (down from 81% in 2020). Smaller firms and those in the production, wholesale/retail and hospitality sectors were less likely to express this obligation to addressing workplace mental health issues.

Looking at initiative adoption, 50 per cent of businesses we surveyed said that they had adopted mental health initiatives in 2025. There was an increase in the proportion of firms adopting mental health and wellbeing initiatives during and immediately after the pandemic. However, the 2025 employer survey findings showed that this increasing uptake has now stalled, with mental health practice adoption at the lowest level since prior to the pandemic (Figure 15).

The smallest firms and those in the production, construction and wholesale/retail sectors are the least likely to have mental health initiatives in place. A sizeable proportion of businesses we surveyed said they had no mental health and wellbeing initiatives in place, and no plans to adopt them in the future either. Nearly a fifth of firms fell into this category in 2025.

The study found evidence of an 'attitude to action gap' on workplace mental health. Whilst three-quarters of our employer survey respondents stated that they felt employers have responsibility for protecting the mental health of their employees, only half actually had mental health and wellbeing initiatives in place.

Figure 15: Proportion of firms adopting mental health initiatives, all firms, 2020 to 2025



Source: ERC Midlands Mental Health and Productivity Survey Series
Base: 1899 firms in 2020, 1551 in 2021, 1904 in 2022, 1902 in 2023, 1901 in 2024, 1226 in 2025

Looking at the types of initiatives adopted by businesses, the data also shows a lower uptake of initiatives requiring financial investment, and a continued reliance on un-costed, practice-based initiatives to deal with workplace mental health issues.

Our UK employer survey found that in firms of all sizes and across all sectors, engagement with mental health initiatives was most likely to be driven by individual managers with personal training in, or experience of, mental health issues. The second main driver was advice from HR colleagues.

5.5 Effectiveness of mental health initiatives

In our survey, only around two-fifths of firms that had adopted mental health and wellbeing practices said that they evaluated the initiatives they introduced, with larger firms more likely to do so. The outcomes that firms identified, however, were overwhelmingly positive in terms of firm-level performance and employee wellbeing.

Our data-matching analysis found evidence that the long-term adoption of specific mental health and wellbeing practices, namely mental health budgeting, wellbeing data monitoring, and provision of physical wellbeing support, is associated with productivity gains. However, the picture is complex as the analysis also found that short-term adoption of practices often coincides with a *decline* in productivity.

Further analysis of the UK employer survey findings has shown that the provision of training for line managers in mental health in particular was associated with improved performance, including lower long-term sickness absence, enhanced staff recruitment and retention and improved customer service.[55] Line managers emerged as a particularly important group through our research. Qualitative research with line managers revealed that they tended to feel there were strong expectations placed on them in terms of managing mental health issues and talked about feeling inadequate and unprepared in dealing with them. Some questioned their ability to cope in a professional way and expressed a view that they were unsupported by their organisations. As a consequence, they felt that they were often left to 'muddle through' without help. The emotive language used during the interviews suggested that these line managers felt an emotional burden from the management of mental health issues. This of course could bring detrimental consequences for those individuals and ultimately for the performance of their organisations.

The impact of workplace mental health initiatives more generally is also of course dependent on their effective implementation. Our case study research explored the issue of implementation and highlighted a number of themes.

Financial constraints emerged as a recurrent barrier, limiting the scope and depth of wellbeing programmes in some organisations, while others found ways to navigate challenges related to staffing, training, and employee participation. Key facilitators of success included strong leadership support, effective communication, and robust feedback mechanisms, although these varied in execution depending on organisational size and culture.

Barriers to implementation also often stemmed from resource limitations, inadequate training, and insufficient employee engagement, with each case study highlighting unique challenges based on their specific contexts. Furthermore, leadership involvement, both at the senior level and through everyday management practices, played a critical role in promoting and sustaining wellbeing initiatives across all case studies.

In terms of facilitating implementation, the case study organisations benefited from clear governance structures, regular feedback loops, and a culture that prioritises wellbeing. While large organisations faced challenges with maintaining consistency across different levels, smaller organisations often had more flexibility to sustain initiatives. Overall, the research found that the success of mental health and wellbeing programmes was closely linked to organisational culture, leadership commitment, and the adaptability of initiatives to meet employee needs.

55 The relationship between line manager training in mental health and organisational outcomes | PLOS One

Connected with this, the findings from our survey of employees also demonstrated the importance of an organisation's wider Psychosocial Safety Climate (PSC) for mental health and wellbeing and performance. Firms with a higher rated PSC were associated by employees with stronger resources (support and leadership), lower demands (workload and emotional strain), better health (lower burnout and higher wellbeing), more positive attitudes (higher engagement and satisfaction), and generally more favourable perceptions of performance (quality and productivity).

An overarching finding to emerge from our research on workplace mental health is that experiences and responses to workplace mental health issues vary significantly by employer size. Our UK employer survey showed that the smallest firms are less likely to monitor employee absence and to adopt mental health and wellbeing practices in general, which is likely to be related to financial and resource constraints. But at the same time, small firms were also more likely to report that mental health related absences were impacting on the performance of their business.

In 2025 we also published a SOTA review exploring the wider evidence on workplace mental health in SMEs.[56] The review found that key barriers for SMEs in engaging in workplace mental health initiatives were resource limitations, the absence of dedicated HR or occupational health capacity, and lower awareness of the business case for investing in mental health. The conditions under which SMEs operate, which are marked by fewer resources, flatter leadership hierarchies, and more informal relationships, can act to amplify the pressures that contribute to workplace mental health problems. At the same time, however, the small workforce size and more informal culture of many SMEs could provide greater opportunities to foster trust and psychological safety. The varied nature of SMEs has led previous reviews to conclude that it is important that SMEs are offered tailored approaches to mental health support. However, the current evidence base points to some general recommendations for SMEs in managing workplace mental health:

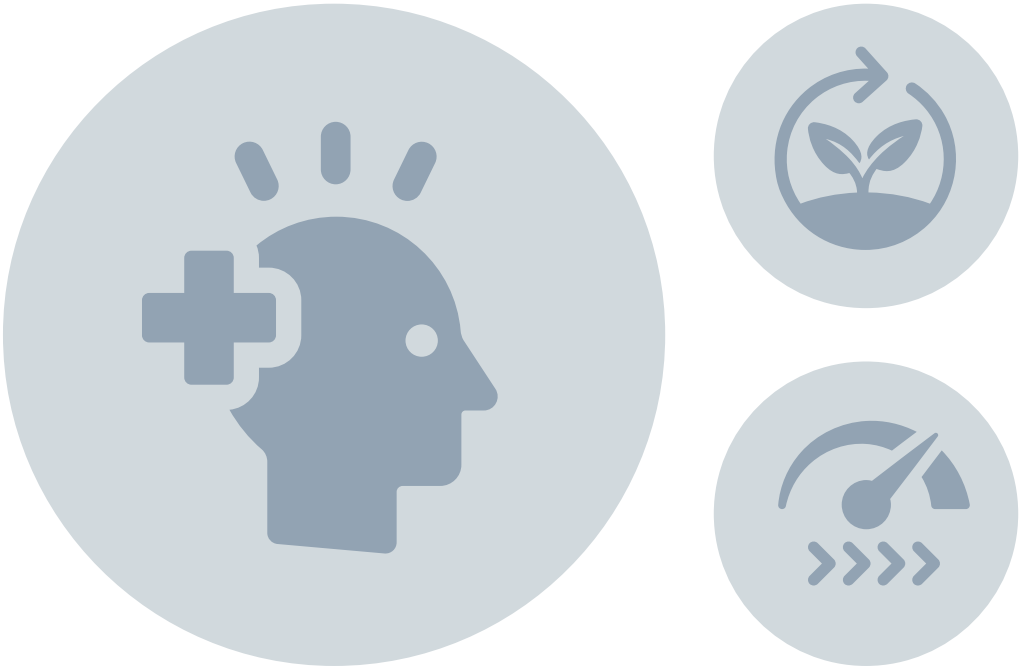
- **Conduct regular mental health assessments**, evaluating employee needs and existing gaps using surveys, checklists, or publicly available tools.
- **Integrate mental health into core business strategy**, positioning it as both a workforce wellbeing priority as well as a driver of productivity, retention, and performance.
- **Leverage SME cultures while ensuring confidentiality**, using close-knit structures to facilitate trust and open dialogue around mental health.
- **Invest in education and ongoing awareness** through mental health education for both managers and employees.
- **Adopt scalable, low-cost interventions**, exploring options such as digital training in mental health for managers.
- **Build strategic partnerships**, for example engaging with business networks as well as public health bodies and psychological/civil society organisation.
- **Promote collective action and shared resources**, pooling resources through local business clusters, or sectoral initiatives.

56 Workplace Mental Health in Small and Medium-Sized Enterprises - Enterprise Research Centre

5.6 Summary

The rising prevalence of mental health and wellbeing issues is a major societal issue, and one that affects business performance. Our research has shown that mental health issues affect a substantial proportion of firms, with presenteeism emerging as a particular problem. Although the majority of firms do say they that they have a responsibility for managing employee mental health, it remains the case that only half actually have any initiatives in place, with uptake now looking to be decreasing. In addition, firm size really does matter when it comes to workplace mental health. Small firms are more likely to report that mental health absences and impacting the running of their businesses, and at the same time they are less likely to have adopted mental health initiatives, likely due to resource constraints.

Given the extent of these issues, it is crucial that action is taken. Recent policy developments indicate that there is recognition of the urgency of the need to address the problem, with the Mayfield Review acknowledging that employee health and wellbeing are crucial factors in ensuring the UK's economic resilience and productivity.[57] Our study identified ten priority policy recommendations, including the provision of a free workplace mental health support service specifically tailored to the needs of small and micro-businesses that would help them put in place longer-term plans to integrate mental health into their business strategies, and supporting small businesses to collect and analyse employee mental health data.



57 Keep Britain Working Review: Discovery - GOV.UK

6. Understanding Micro-Businesses

Micro-businesses, or businesses with 1-9 employees, play an important role in the UK economy, and in stimulating innovation, employment and growth. Despite this, relatively little is known about this important segment of the business population as these very small businesses are often excluded from official surveys which tend to focus on the much broader category of 'SMEs'.

The ERC has had a long interest in raising awareness of this group of firms, undertaking the biggest ever study of UK micro-businesses' back in 2018.[58] In 2025 we again turned our attention to micro-businesses, undertaking new analysis exploring the nature, behaviour and support needs of these vital firms, drawing on analysis of trends in the LSBS (focusing on 2015-2023).[59]

6.1 The role and importance of micro-businesses

Micro-businesses with 1-9 employees accounted for 81.4 per cent of all UK employer firms in 2024 and employed approximately 4.2 million people, making up 18 per cent of the UK's private sector workforce.[60] They are a highly diverse group- ranging from high-street shops and local service providers to fast-growing creative businesses working internationally through partnerships or networks.

Despite their importance for jobs, growth, and innovation, as noted above, they are often excluded from official surveys. The ONS has made progress by including them in the Business Register and Employment Survey and Business Population Estimates, which reveal the sector's size and composition. However, their omission from surveys like the UK Innovation Survey and the Management and Expectations Survey limits insight into their operations. Key questions remain: What challenges do they face? How do they address climate change and global uncertainty? What skills or digital barriers hinder them?

The LSBS conducted annually since 2015, serves as a crucial, albeit incomplete, source of insight into micro-businesses. Analysis of the LSBS (2015 to 2023) reveals a persistent structural divide between micro-businesses and larger SMEs. For instance, there is a persistent gap across nearly all key growth drivers - often in predictable ways. Micro-businesses report lower levels of R&D investment, innovation, exporting, training, technology use, and engagement with external finance.

6.2 Micro-businesses and growth behaviours

Over the years, micro-businesses have consistently lagged behind larger SMEs in R&D investment and innovation. According to the LSBS, by 2023, the share of micros investing in R&D had fallen by one percentage point since 2015, while the share innovating had dropped by 10 percentage points since 2018. Only 13 per cent undertook R&D in 2023, compared to 32 per cent introducing new goods or services in the past three years - a gap suggesting most innovations occur without formal R&D, likely through adopting external technologies or purchased solutions. Among UK regions, Scotland lead the 2023 micro-business cohort, with 36 per cent reporting innovation and 15 per cent investing in R&D.

58 Micro-business Britain - Enterprise Research Centre
59 Understanding micro-businesses: Evidence from the Longitudinal Small Business Survey 2015-2023 - Enterprise Research Centre
60 Business population estimates for the UK and regions 2024: statistical release - GOV.UK

When it comes to exporting, engagement in international markets remains very limited amongst micros: in 2023, only 17 per cent of micro-businesses exported, and 18 per cent imported - levels that have stagnated or declined since 2015 and remain far below those of larger SMEs. Overall, just about one in five micro-businesses participates in global trade through exporting, importing, or both. Northern Ireland is a notable exception, with 31 per cent exporting and 26 per cent importing, reflecting unique cross-border dynamics with the Republic of Ireland. Given the strong link between international activity and productivity gains, this extremely low participation among micro-businesses is a significant concern.

In terms of finance and business support, micro-businesses are more likely to report a need for external finance but less likely to use it than larger SMEs. From 2015 to 2023, an average of 10 per cent indicated a need for funding, yet fewer than one-third of these had accessed it. The share seeking external finance fell from 27 per cent in 2015 to 13 per cent in 2021, before rebounding to 29 per cent in 2023. Use of external business advice has fallen by 8 percentage points since 2015, with only 24 per cent of micro-businesses seeking support in 2023.

Micro-businesses remain far less likely than larger SMEs to invest in training or adopt digital technology. Training provision has declined from 50 per cent in 2015 to 39 per cent in 2023 - 43 percentage points below medium-sized firms. Reluctance to invest in training is often linked to fears of staff 'poaching' by larger firms. The UK apprenticeship programme could benefit micro-businesses, but accessibility remains a concern. While no specific data exists for micros, figures for small firms (0–49 employees) show a 13 per cent drop in apprenticeship engagement between 2021/22 and 2022/23, highlighting the need for more detailed breakdowns.

Digital adoption also lags in micros, falling 13 points from 2018 to 60 per cent in 2023. Regional variation is notable: Welsh micro-businesses lead in technology use, while Scotland and Northern Ireland trail behind.

6.3 Micro-business growth and leadership

Micro-businesses have seen limited progress in growth over the past decade. Employment growth fell from 20 per cent in 2015 to 17 per cent in 2023, while turnover growth rose only slightly to 39 per cent. Regional differences are minimal, but micros consistently lag behind larger firms. Why is this the case? Are certain types of micro-businesses particularly falling behind in growth, or is this growth shortfall related to any of the specific business characteristics mentioned earlier? Future research could examine the distribution of growth among micro-businesses in greater detail and identify the factors and drivers behind this trend.

Other studies of the business population have emphasised the rarity of growth in both employment and productivity (turnover per employee) in the same company. How does the concept of 'productivity heroes' manifest among micro-businesses?

In 2023, 20 per cent of micro-businesses had leadership teams with at least 50 per cent women, 7 percentage points higher than medium-sized firms (13%), a gap that has remained stable over time. Minority Ethnic Group (MEG) representation averaged just 4 per cent between 2015 and 2023, indicating persistently low diversity. Beyond these bio-demographics, little is known about other leadership characteristics in micro-businesses.

Growth ambition among micro-businesses remains lower than other SMEs. It peaked at 75 per cent in 2020 - likely driven by pre-Covid optimism - before falling 3 percentage points by 2023. In comparison, medium-sized firms rose from 88 per cent in 2020 to 92 per cent in 2023

Only 19 per cent of micro-businesses planned to seek external finance within three years in 2023, up 2 percentage points from 2021 but still 5 percentage points below 2015. Medium-sized firms remain more likely to seek funding.

Micro-enterprises as a source of growth – an untold story

'Scale-ups' are now embedded in a range of recent policy announcements by the UK Government and its various departments and organisations charged with business growth and productivity. Unfortunately, the definition of scale-ups doing the rounds is still simplistically focused on the OECD definition of a 'High-Growth Firm' which ignores the vast majority of firms in the UK – that is, those employing less than 10 employees. Micro-enterprises, and their role in 'scaling', is struggling for a mention – if at all.

We know that a relatively small proportion of firms – disproportionately small firms – account for a relatively large proportion of job creation. David Birch is generally credited with having first formulated this conjecture in the late 1970s, and although his claim proved controversial, the conjecture itself became widely accepted quite quickly. But, what was underappreciated is the confounding of size and age in the discussion about the most important contributors to job creation. It is now better understood that firm job growth is significantly age-dependent – fast growth typically occurs at younger ages; and that it is size-dependent too – fast growth typically occurs in smaller firms. As we have emphasised in previous research, tracking growth over the entire lifetime of a firm is a more robust way to understand the scaling process, not arbitrarily defined 3-year periods which can lead to flawed policy options.

In some new analysis in 2025 we addressed a simple question: what has been the contribution of new firms and micro-enterprises to job growth since 1998? We used the ONS Business Structure Database (BSD) – based on annual extracts from the IDBR and a longitudinal business demography dataset that was constructed by ERC that focused on 'employer enterprises' in the analysis.

One of the most striking findings we see from following a birth cohort of firms over time is the extraordinary force of mortality. It is against this background that we investigate, using the ONS longitudinal Business Structure Database (BSD), the growth paths – what we call the 'growth trajectories' – over 25 years of the 16,000 survivors of the 239,000 firms born into the 1998 cohort of start-ups. We found that very few of the 16,000 25-year survivors grew very much, but of those that did, smaller firms grew faster than larger firms. Moreover, for most of the surviving firms that did grow, fast growth is concentrated in the first five years. In detail we found that:

1. 16,558 of firms were still active in 2023, of which,
2. 1,181 started out as a micro-enterprises [1-4 emps] but employed 20+ emps in 2023.

Compared to the rest of the survivors, the growth trajectory of these micro-enterprises, in terms of jobs and revenue, has been remarkable. By 2023, these 1,181 micro-enterprises with less than 5 employees in 1998 had created 85 jobs on average compared to 25 jobs in the remaining survivors of the 1998 cohort of start-ups, and had generated £13m revenue on average compared to £4.6mn in the remaining survivors (Figures 16 and 17).

This new analysis from the ERC reinforces the argument that we must stop ignoring micro-enterprises in any discussion of 'scaling', and develop a more inclusive business support strategy that does not have an entry requirement of a minimum number of employees.

Figure 16: 1998 Cohort: All Survivors Vs Fast-Growing Micro- Enterprises (ONS BSD)

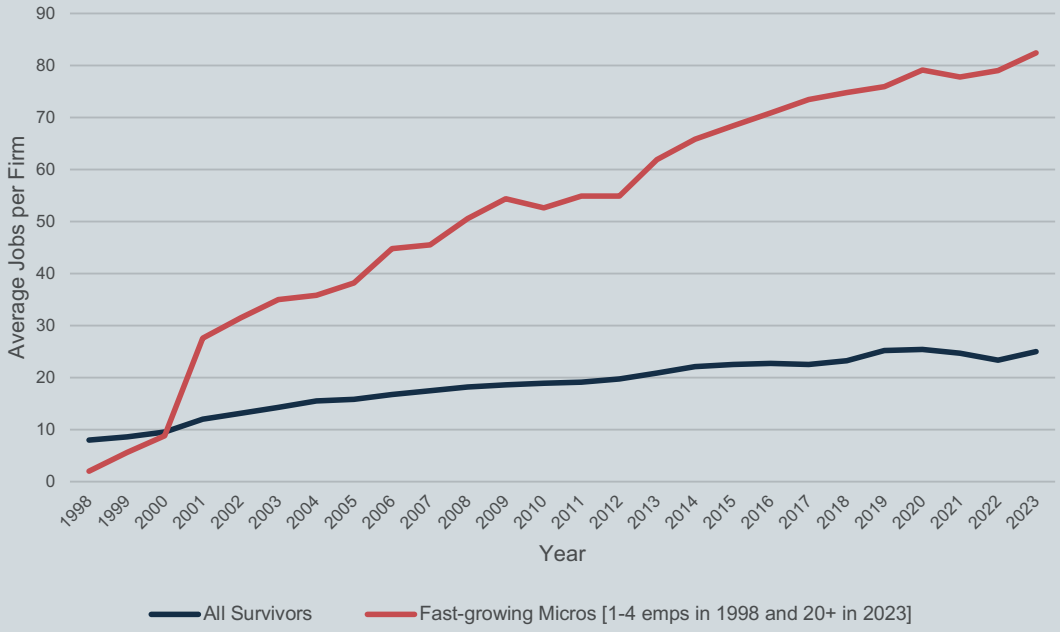
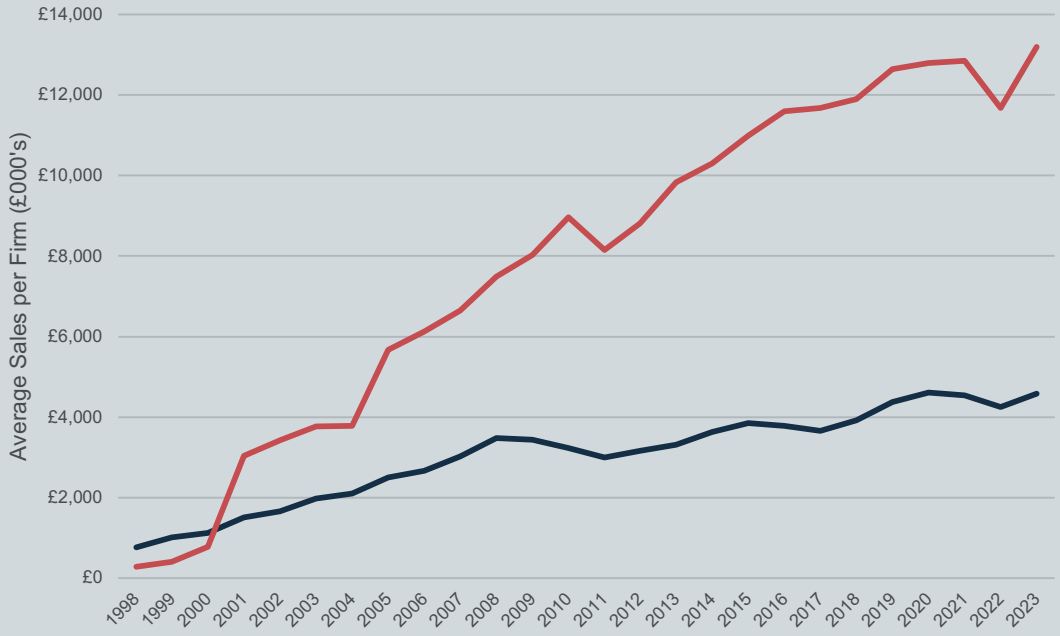


Figure 17: Cohort 1998: All Survivors Vs Fast-growing Micro-Enterprises (ONS BSD)



6.4 Towards a micro-business research agenda

The LSBS provides valuable data on performance and strategy but misses core features of micro-businesses - such as the central role of the owner, family involvement, modest growth ambitions, home-based or gig-economy models, and strong local community ties. To better understand this vital sector, as both a major employer and a pipeline for future high-growth firms, research and policy must look beyond traditional metrics and reflect the lived realities and diverse motivations of micro-business leaders. Key evidence gaps include:

- Innovation processes: Little is known about how micro-businesses innovate; LSBS data suggest reliance on bought-in technologies, indicating a model distinct from that of larger firms.
- International activity: Around one-fifth engage in exporting or importing. Given links to productivity, deeper insights into their routes into global markets are needed.
- External finance: Micro-businesses in Scotland and Wales have drawn on external finance more than those elsewhere in the UK over the past five years, but reasons and impacts are unclear.
- External support: Evidence is limited on how support interventions affect performance, especially the relative value of digital versus face-to-face advice.
- Skills and training: Micro-businesses train less than larger SMEs, and the accessibility of apprenticeships is uncertain. Current data grouping firms with 0–49 employees obscures micro-specific insights.
- Digital adoption and green transition: Digital tools can support sustainability and strategy, but micro-businesses face substantial barriers to adoption.

6.5 Summary

ERC research in 2025 has returned to shine a spotlight on micro-businesses, recognising the significance of this group of firms to the UK economy, and also their distinctive behaviour, experiences and support needs.

The exclusion of micro-businesses from many official data sources and public discourse and tendency to focus on a wide group of ‘SMEs’ creates gaps in understanding about these businesses, particularly regarding the factors that influence their growth and productivity. These gaps have significant implications for the visibility of micro-businesses and the development of related policies. A focused research agenda addressing these gaps would strengthen the policy evidence base and help unlock the growth potential of the UK’s micro-business sector, and this is a cause we will be progressing along with partners in 2026.

7. Final Reflections

Small businesses may not always make headline news, but they are the powerhouse behind the UK's economy. In what has been a turbulent few years, many have shown considerable resilience and adaptability, some have grown whilst others have struggled to survive.

In 2025, the story for small businesses in the UK has been a mixed one. There have been moments of optimism, such as the publication of the Government's new plan for SMEs - Backing your Business - in the summer. This plan committed to supporting SME growth through a wide range of measures and initiatives, drawing on the ERC's back-catalogue of research evidence. Measures included reducing barriers for SMEs in public procurement, addressing late payment problems, new initiatives in leadership development, training, digital transformation and net zero. The plan set out an inclusive ambition to make UK the "best place to start and grow a business, with a culture that supports businesses in every community and high street." It also clearly acknowledged the need for simplification of the business support system.

However, at the same time, small businesses have been operating in a climate of economic uncertainty, grappling with rising costs and inflation. Many have been expressing concerns over increasing tax burdens, with recent changes in National Insurance Contributions and capital gains tax receiving much attention, alongside concerns about the implications of changes in minimum wage policies. In addition, by the end of the year there was still considerable uncertainty about the future of the country's network of business support organisations due to continued lack of clarity about funding.

However, even amidst these pressures, the evidence from the Global Entrepreneurship Monitor shows that the UK's entrepreneurial outlook is very strong, with over one-third of working-age adults engaged in, or planning to start, a business - which is the highest level since the GEM project began. Many entrepreneurs are optimistic in particular about the potential offered by new technologies - and AI use has accelerated amongst businesses, receiving a great deal of attention and reshaping the entrepreneurial landscape.

But, the evidence also suggests that if we are to realise the ambitions of the UK's entrepreneurs we must tackle some of the longstanding weaknesses in the UK's entrepreneurial ecosystem, particularly around availability and access to finance, and entrepreneurial education. And it isn't only the high-tech businesses that matter here. We also need to take the entrepreneurs working in the UK's everyday economy seriously, recognising the vital contributions they make, building their strengths in terms of resilience and adaptation. And we also need to ensure that all business owners - regardless of social group or background - can safely harness the potential benefits offered by new technology.

There are also some important areas where small and micro-businesses need particular support in order to position themselves for success in the coming year and beyond. Addressing the additional barriers they face to innovation will be crucial, as will support with the management of employee mental health and wellbeing issues in what is a challenging wider socio-economic context.

What is certain is that growth will only happen if we build and protect business support ecosystems that genuinely reflect the lived realities of entrepreneurs and small business leaders. This means providing tailored support and guidance that is delivered by trusted experts as well as by community-based organisations who understand the context of individual entrepreneurs and businesses. This system needs to operate with more stability and predictability than we have seen in recent years. Perhaps then we will get to a point not in the too-distant future when the UK can transform its impressive record for launching start-ups into longer term success stories - enabling small businesses to survive, thrive, and grow.

Through our research this year, we have continued to raise the visibility of the UK's diverse community of small and micro-businesses and the realities of their experiences and the challenges they face. We look forward to continuing this work in 2026, working with our partners and stakeholders to provide vital evidence to policymakers that can make the world a better place for small businesses.

Annex

Annex: ERC website publications 2025

All publications are available at
https://www.enterpriseresearch.ac.uk/our-work/publications/

Research papers and policy briefings

123	**Entrepreneurial Alertness in Dynamic Environments: Mediating Pathways to Entrepreneurial Orientation and Performance** Kevin Mole, Baris Istipliler , Mujtaba, Ahsan, Michael Asiedu Gyensare, Samuel Adomako, Jintong Tang, December 2025
122	**Growing Pains: Supporting Inclusive Growth Through Understanding Women-led Business Exporting** Lorna Treanor, Pattanapong Tiwasing, Gary Chapman, November 2025
121	**Small Business Planning is Sticky but neither a Universal Practice nor a Guaranteed Path to Success.** Kevin Mole, Ketan Goswami, November 2025
120	**Longitudinal Exploration of the Role of External Finance in Helping SMEs Achieve Growth, Higher Productivity and Potential in Relation to their Transition to Net Zero** Sylvia Gottschalk, Robyn Owen, Eimear McGeown, November 2025
119	**Technology Adoption and Productivity: Evidence from UK SMEs** Jose Liñares-Zegarra, John Wilson, November 2025
118	**The impact of R&D and exporting on advanced technology adoption among UK SMEs** Jorge Velez-Ospina, Michael Breslin, November 2025
117	**The impact of local social capital on different types of entrepreneurship** Tomasz Mickiewicz, Anastasia Ri, Neha Prashar, Mark Hart, July 2025
116	**Knowledge Spillovers, Entrepreneurial Ecosystems and the Geography of High Growth Firms Redux** Jun Du, Michail Karoglou, Anastasia Ri, Lin Zhang, June 2025

State of the Art Reviews

	Workplace Mental Health in Small and Medium-Sized Enterprises Teixiera Dulal-Arthur, November 2025
66	**SMEs under uncertainty: What evidence tells us about policy shocks and firm performance** Jun Du, Xiaocan Yuan, August 2025
65	**What is the link between Psychosocial Safety Climate and organisational outcomes?** Teixiera Dulal-Arthur, Juliet Hassard, June 2025
64	**Remote working and employee wellbeing** Maria Wishart , February 2025

ERC Reports

The Innovation State of the Nation 2025: Survey Report
22/12/25

Understanding micro-businesses: Evidence from the Longitudinal Small Business Survey 2015-2023
04/11/2025

Mental health and wellbeing practices, outcomes and productivity: Final project report
29/10/2025

Evaluation of Account Managed Clients for Coventry and Warwickshire Growth Hub
09/10/2025

What have six years of employer surveys on workplace mental health taught us?
10/07/2025

Follow-the-Grant – Identifying the longer-term impacts of Innovate UK collaborative R&D grants
09/07/2025

The State of Small Business Britain Report 2024
25/03/2025

ERC Blogs

Did digital technology help SMEs survive the Covid-19 pandemic?
Carolin Ioramashvili , Sabine D'Costa, 07/08/2025

Mind the (Support) Gap: SMEs and the Mental Health Disconnect
Maria Wishart, 10/07/2025

Time to Think Differently About Micro Firms
David Bharier, 09/07/2025

Mavens and the missing link: Unlocking innovation diffusion in small firms
Kevin Mole, 08/07/2025

Post-Brexit Pragmatism? What the UK–EU Reset Summit Means for SMEs
Jun du, 22/05/2025

The New Business Growth Service – Six Steps to Growth
Kevin Mole, Mark Hart, 15/05/2025

The value of entrepreneurial placemaking for rural development: supporting rural creatives
Inge Hill, 08/04/2025

SMEs and Net Zero: how can we break the cycle of inaction?
Maria Wishart, 05/02/2025

Exploring Enterprise Podcasts

Episode 23: Line managers, wellbeing and business performance

07/03/2025

In this episode, Zofia Bajorek, Senior Research Fellow at the Institute for Employment Studies, Petra Wilton, Director of Policy and External Affairs at the Chartered Management Institute and Dr Maria Wishart, Research Fellow at the ERC, speak to Professor Mark Hart on the role of line managers in business performance.

Episode 22: SMEs and net zero – revisited

27/01/2025

In this episode, Professor Stephen Roper is joined by Dr Maria Wishart, Research Fellow, at the ERC, Andrew Griffiths, Director of Policy and Corporate Development at Planet Mark, and Michael Martin, Head of Net Zero and Advice Team, Wenta. We revisit a theme we covered in one of our early podcasts back in 2021 – namely, SMEs and net zero adoption, reflecting on how SME behaviours and attitudes have changed, how policy has evolved, and the challenges and opportunities that lie ahead.

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